

## FOCUS

### US TAX BOMB

Foreign Account Tax Resulting in  
Renunciation of Citizenship

## MANUFACTURING

### ALLIANCE WITH APPLE

LG Display to Supply Flexible OLED  
Displays for iPhone 6, iW

## SERVICES

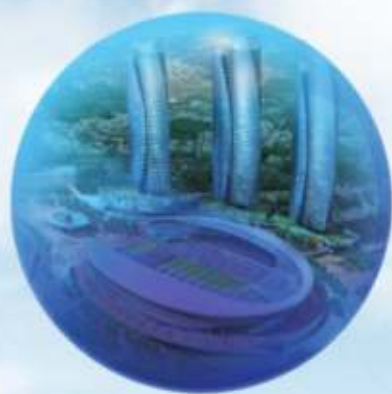
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# C O N T E N T S



**Incheon's Gravity Pulling World into Orbit**

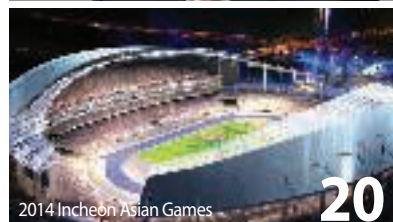
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## TO OUR READERS

06



## Korean Society Touched by Two Heroes This Summer

Two of the hottest issues in Korean society this summer were Pope Francis' visit and the smash hit movie titled Myeongnyang. Stories about the two heroes — the Pope and Admiral Yi Sun-sin — are going beyond a mere craze to become a sort of nationwide syndrome for true leadership.

Sociologists attribute this phenomenon to the people's disappointment about their society and politics filled with discord and conflict, and the lack of leadership witnessed in the Sewol ferry disaster. The message of humbly serving the people for harmonious unity, delivered by a religious leader and a legendary war hero alike, has resonated throughout a society that is eager to see the rise of a true leader.

So many people chanted for Pope Francis, not because they were Catholic or his visit brought economic advantages, but because he came closer to the suffering to hug them and listen to them, instead of hiding in a bulletproof vehicle. In other words, the highest religious leader practiced servant leadership in person at the lowest position. His humble attitude shown from the very first moment of his visit gave the people catharsis and brought forth spontaneous feelings of homage and respect to him. He was particularly warm to the bereaved families of the Sewol ferry victims and former comfort women for the Japanese Imperial Army, that is, those living with pain.

Myeongnyang is a film about Admiral Yi Sun-sin, who sunk 330 Japanese naval ships in 1597, the sixth year of the Japanese Invasion of Korea, with just 12 friendly ships. It attracted 15 million viewers for the first time in the history of the Korean film industry. The audience consoled themselves with the message from the hero, deeply touched by his courage and determination to dedicate his life to the nation at a critical stake.

These days, such leaders are rarely found in Korean society. Almost all prominent people are busy blaming others and inventing lie after lie. It is exactly this aspect of disappointing behavior by politicians and public servants that fueled this latest social craze. The people are longing for leaders like the Pope and the Admiral, who were ready to communicate, serve, and be responsible. Now is the time when Korea needs a leader to sympathize with Korea's plight and pat it the back.

Park Jung-hwan,  
Publisher & Editor-in-Chief



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**US Tax Bomb**

# US's Foreign Account Tax Imposition Resulting in Renunciation of American Citizenship





According to the Department of the Treasury of the United States, the number of overseas residents who abandoned their green cards or American citizenship in 2013 reached approximately 3,000, hitting a record high. For reference, the number was just 231 in 2008. Most of the 3,000 or so persons are likely to be non-Americans trying to dodge the Foreign Account Tax Compliance Act (FATCA), which has been effective since July 1.

"These days, more than half of customer inquiries are about the FATCA," said a private banker, adding, "They are wondering how to avoid the imposition of huge unpaid taxes and penalties by the implementation of the unprecedented system."

President Barack Obama passed the FATCA bill on March 18, 2010, in an attempt to prevent offshore tax evasion by the rich. His administration signed inter-government agreements for the purpose with 26 countries, including Britain, Canada, and Japan, until March this year, and Korea concluded the agreement on March 17. The Department of the Treasury has recently announced that 70 countries and over 77,000 financial organizations are in compliance with the FATCA.

The bill is to compel not just individuals but also financial institutions abroad to report the overseas financial assets of American taxpayers including citizens, permanent residents, and de facto residents. The last category covers students and corporate employees staying in the U.S. for a significant period of time.

The key of the law consists of reporting by foreign banking institutions. Korean financial organizations have to report data on American taxpayers' accounts exceeding US\$50,000 to the Internal Revenue Service (IRS). In the case of violation, a withholding tax rate of 30 percent is applied to the amount paid to American corporations, which is equivalent to a ban on sales in American territory.

The FATCA's impact is redoubled in combination with the Report of Foreign Bank & Financial Accounts (FBAR). Effective since the 1970s, the FBAR is one of those schemes similar to the FATCA, and compels any person with a liability to taxation to report to the department if he or she deposits US\$10,000 or more in an overseas account, even for a single day. Violators are subject to civil and criminal penalties. Fifty percent of the maximum balance is imposed as the penalty, in addition to surtax, for accounts exceeding US\$200,000.

The heavy regulation has been lacking in its effectiveness, though, because it is based on voluntary reporting by account holders. In other words, the non-fulfillment of the duty cannot be confirmed unless the Korean government cooperates. Up to now, the government has delivered domestic financial account information to the U.S. only in extremely limited cases, for

example, when involvement in a crime is suspected. However, the asset information of the other individuals will be disclosed as well, once banking institutions begin to report to the IRS in compliance with the FATCA.


## U.S. Government Blocking Returning of Green Cards

The ratio of those having a green card or American citizenship to the number of super-rich is particularly high in Korea. In addition, the impact of the FATCA is likely to be even greater, because a lot of cases have to do with simultaneous business in the U.S. and Korea, or sending children to the U.S. for education. Approximately 300,000 persons, including 130,000 citizens and permanent residents, are estimated to be subject to the law.

In fact, many well-off Koreans have split their financial assets of over US\$50,000 into multiple organizations ahead of the implementation of the FATCA while showing increasing interest in tangible assets that do not have to be reported like gold and real estate. Some of them even withdrew their deposits to hoard the cash in private safes.

The others have renounced their U.S. citizenship. "Nowadays, you can see a large number of people returning their green cards to the U.S. Embassy," another private banker mentioned, continuing, "However, the U.S., on its part, is becoming more and more uncooperative for them, to not lose its tax revenue sources."

"Renunciation of citizenship is not a perfect solution, because it is linked to the expatriation tax and military service," said Kim Hyun-jin, attorney at the Asset Management Team of Law Firm Sejong. The expatriation tax is calculated not based on the assets in U.S. territory, but the overall assets that an American citizen has when he or she gives up citizenship. The tax is equivalent to about 30 percent of total assets. The same rule is applied to permanent residents who lived in the U.S. and paid taxes for at least eight years during the 15-year period before the date of renunciation.

For now, the only alternative is the Offshore Voluntary Disclosure Program (OVDP). It allows a voluntary report of overseas financial assets owned for the past eight years, and reporters can avoid criminal punishment by paying 27.5 percent of the maximum balance for the eight-year period, along with unpaid taxes and incurred interest. Still, it is said that many wealthy individuals are feeling some burden with the OVDP, since the amount of documents and the fine they have to pay are both substantial. 

## Reconciliation Message

# Seoul Sends Message of Reconciliation to Pyongyang to Time with Pope's Visit



Pope Francis is welcomed by President Park Geun-hye upon arriving in Korea on August 14. Pope Francis said, "The peace in Korean Peninsular is a great cause needed direly for the world" at the presidential office of Cheong Wa Dae on the same day.

The National Security Office published a new booklet on national security strategy on August 13. In the book, the South Korean government proposed a conversion from an armistice regime to peace regime, arms control oriented toward disarmament, increased investment in the Kaesong Industrial Complex, and permission for commercial investment in economic cooperation projects.

Foreign affairs experts interpret the announcement of these national security measures prior to Pope Francis' visit to Korea on August 14 as a paradigm shift in inter-Korean relations for a substantially positive outcome and the expression of a strong desire for reconciliation and economic cooperation between the two countries. Still, the plans have their own limits, in that they could be feasible only when Pyongyang gives up on its two-track policy for simultaneous nuclear and economic development.

One of the most noteworthy points in the new scheme is the forward-looking proposal to establish a peace regime and initiation of discussions on arms control. This is the first time that the South clarified its intent to discuss


the regime conversion and arms control issues with North Korea. President Park Geun-hye identified reunification as a jackpot during her New Years' press conference, and has come up with her "Trust-building Process in the Korean Peninsula," "Northeast Asia Peace and Cooperation Initiative," and "Dresden Declaration" in March one after another in order to encourage the North to change its stance. However, Pyongyang has responded to the requests by launching missiles and threatening nuclear tests.

"What we are planning to do is have inter-Korean dialogues field by field so that the North can sympathize and cooperate with us on the Trust-building Process and the Dresden Declaration, while humanitarian issues are properly dealt with and trust is built on the military side," said the NSO, adding, "The first humanitarian projects in line include regular meetings between separate families, confirmation of life and death, and exchange of video mails and gene information. We will work with international and civic organizations such as the International Committee of the Red Cross to seek practical solutions." It is expected

that the plans will be officially suggested to Pyongyang during President Park's speech marking National Liberation Day on August 15.

Cheongwadae brought up various incentives on condition of amelioration in bilateral relations, too. Depending on how the North changes its attitude, it is going to lift the May 24 economic sanctions, which were put in place after the sinking of the Cheonan in 2010, so that more investment can flow into the Kaesong Industrial Complex and business investment for economic cooperation be allowed.

"As trust is built between both Koreas and the North moves ahead with denuclearization, we will proceed with the Vision Korea Project, which covers the construction of power, transport, and telecoms infrastructure, participation in special economic zone development, and assistance for cooperation with international financial organizations, so as to complete the establishment of an inter-Korean economic community," the government mentioned, continuing, "Collaboration projects among both Koreas and China as well as those of the South, the North, and Russia, such as the Rajin-Khasan project, will lead to the joint prosperity of the Korean Peninsula and Northeast Asia as a whole, while contributing to the materialization of the Eurasia Initiative."

According to Cheongwadae, lifting of the May 24 economic sanctions and participation by not just the two Koreas but also China and Russia are essential factors for the Eurasia Initiative, one of the key national policy goals of the South Korean government. In the meantime, President Park is expected to mention the comfort women issue and specific measures for economic cooperation with the North as well in her speech for Liberation Day. 



## Deregulation System

# Regulation Cost Quota System Operational First Time in 16 Years

The government has put the overall regulation system into operation for the first time in 16 years. A total regulation cost quota system will be applied to all administrative regulations including legislation by Assembly members, and reform will be executed through evaluations before and after the regulations.

The Office for Government Policy Coordination under the Prime Minister reported the amendment of the Framework Act on Administrative Regulations to President Park Geun-hye at a cabinet meeting held by the President on August 19, and announced to submit this amendment to the National Assembly within this week.

First of all, the government decided to create a total regulation cost quota. Under this new system, when a new regulation is created or enhanced, one existing regulation with equivalent cost to the new one must be removed or reduced.

The total regulation cost quota system already began in July in eight government departments including the Ministry of Land, Infrastructure and Transport and the Ministry of Maritime Affairs and Fisheries. If the amendment passes the National Assembly, this system will be applied to all administrative regulations except those regarding safety.

Moreover, when a new administrative regulation is created, prior administrative notification as well as an assessment by the Ministry of Government Legislation is required. The legitimacy of the new regulation shall be reviewed within six months from implementation, and reorganization must be done within two years.

Corporate regulations are restructured for economic revival. With the negative method, entrance to new markets and new businesses of companies



President Park Geun-hye gives an introductory speech at the Ministerial Deregulation Meeting at the Presidential Office on March 20.

are approved in principle, and only exceptions are prohibited by regulations.

To companies intending to enter into new industries, the government shall inform the company if regulations are applicable. Depending on the circumstances, some companies might be exempted or given improved regulations. This is a Korean version of the Grey Zone Settlement System of Japan.

Evaluation procedures of regulations before and after will be enhanced as well. Those designated as "Important Regulations," which shall be reviewed by a Regulatory Reform Committee beforehand, will be defined in a presidential decree so that anyone can understand the criteria with transparency. The Office for Government Policy Coordination has an internal standard for important regulations such as the ones which incur over 10 billion won (US\$9.7 billion) of regulation effect costs, or which are applied to over 10 billion people annually so far, but the standard is not legally binding.

Regarding Important Regulations and regulations legislated by Assembly members, regulation effects shall be reviewed after a certain period after

implementation. This is especially significant, since legislation by Assembly members does not go through regulation effect analysis during the bill proposal and the deliberation of the National Assembly.

The government intends to pass this amendment of the Framework Act on Administrative Regulations during a regular session of the National Assembly in September, and begin regulation restructuring next year. An associate of the Office for Government Policy Coordination said, "If this amendment is passed, the legitimate infrastructure for regulation reform can be established that people and companies can actually feel. The government's regulation restructuring will be sped up even more."

However, since this amendment includes regulations over legislation by Assembly members, it will not be easy to pass in the National Assembly. The opposition party has a stance that the ex post facto evaluation of legislation by Assembly members is a violation of legislative rights that ignores the separation of legal, administrative, and judicial powers. Even some ruling party members feel uncomfortable. <sup>8K</sup>

## Controversy over Reverse Discrimination

# Employment of Highly Educated Youth in Blue Collar Jobs Stirring Controversy

The employment of university graduates in blue collar positions is emerging as a hot issue in various industries. The controversy was triggered in May, when the National Human Rights Commission announced that hiring mainly high school graduates in such positions constitutes reverse discrimination.

The majority of manufacturing companies in Korea, including Hyundai Motor Company, SK Energy, GS Caltex, and the Samsung Group, have limited blue collar jobs to high school and two-year college graduates. Although the government has rarely restricted the unlawful practice in view of the importance of subjective evaluations in recruitment, the companies are finding it hard to change their criteria according to the law, because they could be criticized as giving no opportunities for high school graduates.

The labor community and technology education experts have criticized the organization's recommendation, too. The criticism is based on the possibility of a decreased employment rate for high school graduates and less expertise of the workers. The high school graduate employment rate, which had been as high as 62.3 percent in 2008, fell to 61.1 percent last year.

"Preferential treatment in favor of those with assets, whether diplomas or properties, is the real discrimination," said senior research analyst Hwang Seon-ja at the Federation of Korean Trade Unions, adding, "Employment of university graduates in manufacturing jobs is not just a waste of national resources but also an undesirable measure which could turn the job market into a battlefield."

Nevertheless, many people are supporting the recommendation and law revision to comply with it. The basis of



GM Korea workers are checking a Chevrolet Malibu at the plant.

their argument consists of the fast-rising university admission rate and ever-

deteriorating youth unemployment. "The expansion of the scope of employment will be of great help for university graduates who are struggling to find a job," said Park Ji-soon, a Korea University Law School professor. According to the Korea Statistics Office, the university admission rate soared from 38.4 percent to 70.7 percent between 1993 and 2013.

Korea Labor Institute Senior Researcher Keum Jae-ho echoed by saying, "Even though academic inflation should be addressed by giving more jobs to those without college diplomas, a discriminatory treatment based on an academic career is also a wrong practice that has to be eliminated right away." **OK**

## Gender Discrimination

## Korea Shows Widest Gender Wage Gap in OECD



Korea has topped the list for 13 consecutive years among OECD countries in the male-female wage gap.

The male-female wage gap is wider in Korea than in any other OECD member country for over 10 years, and the gap is widening with time.

According to the organization, the wage disparity amounted to 37.4 percent as of the end of 2012, the highest among the 11 member countries that provided statistics. Korea was followed by Japan (26.5 percent), the United States (19.1 percent), Canada (18.8 percent), Britain (17.8 percent), Slovakia (16.0 percent), the Czech Republic (15.1 percent), Australia (13.8 percent), Hungary (11.3 percent), Norway (6.4 percent), and New Zealand (6.2 percent).

Korea has topped the list for 13 consecutive years since the statistics began to be compiled in 2000. The figure

had reached 40.4 percent in 2000 and dropped by no more than 3.0 percentage points during the 13 years. Meanwhile, those of Japan and Britain declined by as much as 7.4 and 8.5 percentage points, respectively.

The OECD average fell from 19.2 percent to 14.8 percent between 2000 and 2011. However, Korea's figure dropped from 40.4 percent to 37.5 percent during the same period. The wage disparity in Korea had been 2.1 times the OECD average in 2000, but increased to 2.5 times in 2011.

In the meantime, the Ministry of Employment and Labor recently announced that the average monthly wages of male and female workers were 2.664 million won (US\$2,581) and 1.705 million won (US\$1,655) each last year. The average was 112 million won (US\$108,519) for male employees of Samsung Electronics and 73 million won (US\$70,893) for their female counterparts. At Hyundai Motor Company, the average annual salaries of men and women were 95 million won (US\$92,047) and 78 million won (US\$75,723), respectively. **OK**



## Busan-Jinhae Free Economic Zone

## European Companies Rushing to Invest



Seo Seok-soong, commissioner of BJFEZ Authority (third from left), and Martin Heller, vice president of Swiss Burckhardt Compression (second from left) pose for a commemorative photograph at their MOU ceremony on August 23.

Investments of European companies are surging to Mieum Components and Materials Complex, the foreign investment area of the Busan-Jinhae Free Economic Zone (BJFEZ).

BJFEZ signed an MOU with Burckhardt Compression, headquartered in Zurich, Switzerland, for a US\$20 million (approximately 20 billion won) investment in a 9,986m<sup>2</sup> area of the Mieum Components and Materials Complex foreign investment zone at the BJFEZ office located at Songjeong-dong, Gangseo-gu, Busan on August 23. Swiss Burckhardt Compression, established in 1844, is a major global company in reciprocating gas compressors, and achieved sales revenues of US\$500 million (approximately 500 billion won) in 2013.

A reciprocating gas compressor, the main product of Burckhardt Compression, is an essential device for offshore plants and gas carriers, and is widely used in major Liquefied Natural Gas (LNG) and Liquefied Petroleum Gas (LPG) vessels worldwide.

Burckhardt Compression has sales and services networks in 80 countries worldwide, and maintains its stature as a global pioneer through active R&D activities. Burckhardt Compression

plans to build a large production facility in Mieum Components and Materials Complex, the foreign investment area of BJFEZ.

After the MOU exchange, a contract for lands will follow late next month. Construction will start immediately afterwards, and production will begin early next year.

Seo Seok-soong, Commissioner of the BJFEZ, said, "Thanks to the investment of Burckhardt Compression, 400 direct and indirect jobs with 30 sub-contractors are expected to be created. Above all, product competitiveness and exports of regional shipbuilding and offshore plant businesses will be enhanced through transferring advanced technologies."

The city of Busan and BJFEZ are attracting foreign companies by forming the 328,000□ Mieum Components and Materials Complex foreign investment zone, leasing the space for a maximum of 50 years, and providing necessary administrative support for business operations such as licensing.


So far, investors into the complex include Wilo (March 2012, Germany), a manufacturer of liquid and air pumps; Geislinger (April 2012, Austria), a manufacturer of anti-vibration dampers;

Bosch Rexroth Korea (May 2012, Germany), a manufacturer of oil hydraulic equipment; Höganäs Korea Production (January 2013, Sweden); Hamai Korea (March 2013, Japan); Praxair Korea (December 2012, U.S.); and Lanxess Korea (February 2014, Germany).

It is easy to understand, then, that BJFEZ scored the top in the national free economic zone performance evaluation of the government this year. BJFEZ announced on August 24 that they recorded the highest scores in unit zone evaluation, foreign direct investment (FDI), and domestic corporate investments through sturdy development projects and active investments.

Accordingly, BJFEZ will be awarded with 732 million won (US\$718,933) of operating expenses from the government.

In by-sector evaluations as well, BJFEZ stayed on the top in business development and the corporate support sector.

The national free economic zone performance evaluation is executed by an evaluation committee consisting of civil professionals based on the previous year's performance, in order to promote business development and foreign investment through competition. 

## Icheon City

# Happy, Harmonious, Energetic City for Citizens



Cho Byung-don, Mayor of Icheon City.

Icheon, the first UNESCO Creative City in Korea, is aiming to become self-sufficient with a population of 350,000. To this end, Mayor Cho Byung-don of Icheon City has been trying to build a strong foundation through a variety of projects. Icheon attracted 324 new companies to the city last year. In particular, Icheon brought in a jackpot at the end of last year, the factory expansion of SK Hynix, which is a huge milestone for regional development. SK Hynix plans to expand its factory by 500,000 m<sup>2</sup> and invest 15 trillion won (US\$14.5 billion), hiring over 4,000 new employees either directly or indirectly. BusinessKorea had the opportunity to conduct an exclusive interview with the mayor who was recently reelected in June this year.

## **Congratulations on your third election victory. Please tell us your ambitions after your inauguration.**

I deeply thank the citizens of Icheon for giving me the third opportunity to dedicate myself to the city and service the city one more time. As I promised to my citizens, I will lead the sixth civil government elected by popular vote with all my passion and dreams.

I believe that my third victory shows the evaluation by the citizens of the last eight years in which I have led the fourth and fifth civil government under these difficult circumstances. This would be impossible without citizen confidence and trust in me. Before the delight of victory, I feel an infinite responsibility and strong sense of duty.

I have visited everywhere in the 14 eup, myuns, and donges [different municipal areas – ed.] of Icheon for the last eight years. I have even come to realize the number of streetlamps, and the status of community halls and bridges in certain villages. I checked on and solved the complaints on the ground.

My sixth civil government will continue to do so. Ritualistic and inefficient administration work will be minimized. As a part of this plan, there was no separate inauguration ceremony for the sixth civil government.

## **You passed a very tough gateway to the third victory. Could you introduce any plans for a great unification of citizens?**

Although there is not a single easy thing in an election which shows a public judgment, this time was even harder in many aspects. My motto is ‘Man proposes, God disposes.’ I have tried my best in what I have had to do. I think God disposed upon my efforts.

There is fierce competition, disputes, winners, and losers in every election. The results of the election is the choice of citizens, which comes from previous sovereign power. But from now on, everyone needs to cooperate to enhance competitiveness of the city.

I understand that some citizens agree with my policies and directions, while some do not. I need both encouragement and criticism. There is no progress if there is only unilateral encouragement. A bitter reprimand is a great opportunity to think on my thoughts and actions in the past.

I will meet everyone more frequently to explain my ideas and provide a vision. I will open a wide path to great unification with the devotion of “one for all, and all for one,” as well as a strong team spirit.

## **Please tell us the operating directives of the municipal government.**

First of all, I will establish a foundation for a planned city of 350,000 people and finish pending business. As the city of Icheon has approved the document “2020 Basic City Plans of Icheon,” this includes development of housing sites in Majang and the Jungri district for the first time in a nature conservation zone. Upon the completion of the housing site development,





the foundation to jump to a planned city of 350,000 in South-east Gyeonggi-do will be complete.

Second, I will make Icheon an economic city full of companies and jobs. One of the major businesses that Icheon has been promoting for past eight years is to invite companies to settle here. The city aimed to bring 300 companies in, but already reached 324 companies at the end of last year. Job creation by inviting companies will continue to be an important municipal policy in the sixth civil government.

The factory expansion of SK Hynix cannot be omitted in terms of job creation and corporate invitations. At the end of last year, Icheon brought in a jackpot, a factory expansion of SK Hynix, which will become a huge milestone of regional improvement. SK Hynix plans to expand its factory by 500,000m<sup>2</sup> and invest 15 trillion won (US\$14.5 billion). Over 4,000 new employees will be hired either directly or indirectly. According to Seoul Institute of Economic and Social Studies, 55 trillion won (US\$54 billion) of production inducement effects, 18 trillion won (US\$17.5 billion) of added value effects, and 210,000 job creation effects are expected over the next seven years. Icheon will become the world's major semiconductor city with a strong planned foundation.

Third, I will make Icheon a happy, harmonious, and energetic city for citizens. The City of Icheon will build a woman's center to become a woman-friendly city, and try to eliminate sexual harassment, family violence, school violence, and child abuse. A rehabilitation center exclusively for the disabled will be built, and "happy coexistence," a welfare system coordinated by private and government organizations together, will be systematically promoted. The city will also prioritize employment among elderly welfare policies, and provide jobs to old people who are capable of working in order to revitalize their lives.

Fourth, a ubiquitously convenient transportation system shall be formed. Transportation infrastructure will be radically improved during the sixth civil government. A dramatic change of Icheon will be achieved, with a little exaggeration. Initially, a Seongnam-Icheon-Yeosu double track subway line will be opened at the end of next year. Moreover, completion of Lot No. 6 and East Icheon IC between Seongnam-Janghewon expressway and an early start to construction of the Icheon-Chunghu section of Jungbu Naeryuk Railway will be promoted. These wide open road networks will speed up the establishment of our family-oriented city.

Last but not least, I will build the best tourism city. I aim to invite 10 million tourists by making Icheon a four season tourism city. Tourism infrastructure businesses are being created for this. Major businesses such as Ceramic Art Village, expansion of Termeden, expansion of Unong Youth Holy Land, Lake Seongho Horseback Riding Village, Seohui Theme Park, Agricultural Theme Park, Baeksa Hanok Village, Lumber Experience Center, and Democratization Park are examples. All of these are planned to be completed during the sixth civil government. Especially, Icheon Ceramic Art Village (400,000 m<sup>2</sup> in size) is a huge project with a 42.2 billion won (US\$41.1




million) budget. Construction is currently ongoing, and will be completed by 2016. One hundred items of experience tourism will be developed to make Icheon the best city for experiencing tourism. Agricultural experience tourism is also already actively promoted. There are five agricultural experience villages and 22 experience farms in Icheon. Icheon is within one hour of any metropolitan city including Seoul, Incheon, Suwon, and Seongnam. In order to vitalize tourism products of farm village experiences by utilizing this advantageous position, the city of Icheon founded Icheon Farm Village Visit Corporation in 2010.

#### Do you have any requests to citizens?

There remains a long journey to make Icheon a 350,000 person planned city. Twenty-four hours a day are not enough to go through numerous businesses such as inviting a four year collage, forming Hynix Town (IT Valley), creating East Icheon IC at Yeongdong Expressway, building a woman's center, designing a 1 million pyeong Millenium Park at Sulbong Park, expanding support for innovative businesses of traditional markets, promoting the expansion of consolidated maintenance businesses for farm villages, and modernizing the livestock production facilities.

None of these can be and must not be done by myself alone. These are possible only when there is support and encouragement from citizens. I ask every citizen to actively participate in the municipal government activities to make Icheon an energetic, affluent, and ultimately the best city.

With the warm growth, the government together with citizens, faith in completion and a quantum leap, I will enhance the quality of our city. I will use my best efforts to gather all the powers and energies from all citizens. And I will devote my whole life to run towards a planned city with 350,000 people. 



## Mayor with a Dream

# Pursuing Integrated Service Business Model for Incheon to be Korea's Growth Engine



Yoo Jeong-bok, Mayor of Incheon Metropolitan City.

A dreamer boy, who lived in a small town in Incheon, has returned home to serve its citizens as the mayor of the city. The boy is Yoo Jeong-bok, who was elected the Mayor of Incheon Metropolitan City in the regional government elections in July this year. He had resigned his position as National Assembly member and the first Minister of Public Administration and Security of the Park Guen-hye government to run for mayor. Now, he dreams to develop the metropolitan city to become a key player on the world stage with 3 million citizens. He strongly believes that Incheon is a place of unlimited growth potential, as it connects Korea with the world through its airways and seaways. He said that he would do his best to realize the dream, beyond the accomplishments the city has

made so far, in an exclusive interview with BusinessKorea. We spoke together about his dream, the current issues of the city, and his plan of city development and operation. What follows are some excerpts from the interview.

**Congratulations on your inauguration as the sixth mayor elected by popular vote. The expectations of citizens must be great, as you were the first Minister of Public Administration and Security of this government. Please tell us how you feel about being elected.**

My parents, who lost their hometown due to war, rebuilt their new life in Incheon with new hopes. For me, Incheon is the place where I have been dreaming of being a government official through watching the devotion and efforts of my parents to overcome poverty after the war.

Later on, many people thought I achieved my dream, as I have worked for the country and its people at the center of government and politics. However, I set down my status as a minister and member of the National Assembly, and chose my hometown Incheon. I could not turn away from Incheon, which is currently in a difficult situation, and has to meet the needs of the times.

I will put forward most of my efforts to make a happy city for citizens, which is the ultimate goal of the municipal government. I will not neglect any single thing, from a small happiness in daily life, to the long-term vision of megacity Incheon for the happiness of citizens.

I will try my best to make sure that 3 million Incheon citizens will remember 2014 as the first year of Incheon hope. I will become a "mayor of citizens" to prioritize citizens and a "working mayor" to work hard in the field.

**As there are many difficult issues for Incheon Metropolitan City to solve, strong responsibilities must lay on you. Please clarify some of your urgent tasks.**

There are many urgent issues, but securing the financial independence of the municipal government is the most important for a practical and strong local autonomy to be realized.

Incheon has a long way to go. The city needs to find its own sources of tax revenue and solve habitual tax delinquency problems. Incheon also has urgent debt issues. I will try to transform Incheon from a debtor city into a rich city with



strong financial integrity by preparing various solutions.

I have been emphasizing changes and innovation in public offices many times at the inauguration speech and employee ordinance. Unless public officials change, the happiness of citizens is far away. Accordingly, I created a key slogan of Incheon to be "New Incheon, Happy Citizens."

Furthermore, we have the most imminent task of hosting the Asian Games successfully. We will make this event an opportunity for a new takeoff of Incheon by emphasizing the strengths and potential of Incheon through thorough preparations. Together with President Park Geun-hye, I will develop Incheon into a specialized city of creativity and make Incheon an outpost of the improvement of Korea.

**As the government is considering deregulations to nourish seven promising industries, Incheon Free Economic Zone is expected to benefit the most. Any plans or preparations regarding this?**

The government announced investment activation plans centered on seven promising service industries at the trade investment promotion meeting hosted by President Park Geun-hye at the Blue House on August 12.

The Incheon Free Economic Zone is included in several specific Blue House plans. First, there are the resorts. There are plans to establish the LOCZ integrated resort, Paradise integrated resort, and Dream Island integrated resort in order to promote tourism, which are all located in Incheon. For growing distribution, Incheon also is the target of a plan to alter the purpose of the use of the outlying areas around Incheon International Airport. For education, Incheon is again the target of a program to expand the number of foreign educational organizations that are founding branches in the city. And finally, to encourage the growth of the medical field, regulations will be relaxed about investment-capable hospitals in the zone to support medical tourism.

These promising service industries are essential to reform the Korean economy and achieve US\$40,000 per capita income. I believe that having the Incheon Free Economic Zone as a main target for those industries shows that the location and future possibilities of Incheon Free Economic Zone is appreciated.

In particular, as service industries are most effective in integrated forms, integrated business models rather than dispersed models will be pursued. I will accordingly continue to provide active administrative support and promote investment opportunities so that major projects currently underway, including the LOCZ integrated resort, can be successful. I will try my best to make Incheon an exemplary region of deregulation and an outpost to lead the growth of promising service industries in Korea after all.

**Regarding the investment attraction environments, what are the strengths and competitiveness of Incheon Metropolitan City? Tell us how to maximize them as well.**

Incheon has the Free Economic Zone, international airport,

and port. It is also very close to China geopolitically. However, these strengths have not manifested 100 percent yet.

What is hopeful, though, is that opportunities are constantly created based on the strengths of Incheon. Some examples include distribution competitiveness through the airport and port, and an MICE industry centered on Songdo and Yeongjong. These opportunities keep rolling in.

From now on, I will establish and conduct strategies for Incheon to become a growth driver of Korea based on stronger competitiveness through an investment attraction group directly under the mayor.

In particular, to be prepared for the Korea-China FTA negotiations being completed within this year, Incheon is figuring out various ways to invite Chinese capital. I will closely analyze the overseas investment status and promotion strategies of China and attract Chinese capital based on thorough preparations and comprehensive reviews including the investment directions of China, as necessary.

I will put most of my efforts towards making Incheon become the center of the global economy by being actively engaged in inviting Chinese capital through policies such as the activation of medical tourism for Chinese tourists, promotion of international schools for Chinese children living in Korea, and expansion of investment immigration.

**The Asian Games is only one month away. There are still numerous tasks to complete. Tell us about the preparation status.**

I believe the Asian Games this year is an important opportunity to advertise Incheon not only to Asia but also to many other countries around the globe.

I am focusing on integrating the Asian Games with cultural content so that anyone in the world could enjoy more than just a sports festival. I will prepare many things to see, eat, and enjoy.

The Incheon Asian Games is becoming a hot issue due to the participation of North Korea. North Korea sent 280 cheerleaders to the Busan Asian Games in 2002. Beautiful cheerleaders from North Korea are greatly raising the interest of the public. Through active cooperation with the 2014 Incheon Asian Games Organizing Committee, I will make sure that North Korean athletes and cheerleaders find no trouble in staying, transportation, or safety.

Moreover, special opening and closing ceremonies in which the future of Asia is presented through harmony with small and weak nations are being organized by the citizens of Incheon.

In addition, domestic and foreign artists, Hallyu celebrities, and idol groups will participate in the opening and closing ceremonies, as well as various performances to show Hallyu and the traditional beauty of Korea.

Famous chefs from many Asian countries will be invited, and the Asian Food Festival will be held. Diverse and energetic cultural events in which Hallyu can be experienced are being prepared for anyone to enjoy. 

## Incheon Free Economic Zone

# Center of Cross-border Investment and Pivot of Korea's Service Industry



Lee Jong-cheol, Commissioner of the Incheon Free Economic Zone Authority.

The Incheon Free Economic Zone (IFEZ) was designated as the first free economic zone in Korea in August 2003, and it is scheduled to be completed in 2020. With a population of two billion just a three-hour flight away, the zone is aiming to become the best business city in Northeast Asia.

The project has had its own ups and downs over the past 10 years, due to regulations and financing difficulties. Nevertheless, the IFEZ has achieved some desired results. A number of skyscrapers have been built on formerly empty ground, and global enterprises have moved in one after another. Lots of people stroll along the Canal Walk and the Songdo Central Park, which turn into carless streets each weekend. The Good Market event attracts people to the point of causing severe traffic jams. It is not called a ghost city any longer.

The number of companies housed there has increased from 294 to 1,147, and the number of foreign companies investing in the zone has skyrocketed from three to 70. The foreign direct investment invested in the zone has amounted to over US\$6.6 billion as of the end of April this year.

## Appealing Investment Destination

Last year, the Green Climate Fund (GCF) Secretariat and

the World Bank Group Korea Office were opened in the IFEZ to worldwide attention. More and more investors are now focusing their eyes on it as a highly attractive investment destination.

The GCF is a fund dedicated to the fight against climate change and greenhouse gas emissions. In fact, there have been a series of funds in operation, such as the Global Environment Facility, to serve the same goal, but they have been limited in size and provided support for specific fields only. The purpose of the GCF is to take a comprehensive role in helping developing countries deal with climate change. The World Bank Group Korea Office, in the meantime, is a combination of the five international organizations, including the International Bank for Reconstruction and Development (IBRD), and assumes a pivotal part of cooperation projects for investment in less-developed nations.

Up to now, a total of 13 international agencies have been housed in the IFEZ, including the Association of World Election Bodies (A-WEB) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). Even more international bodies are expected to come to the district down the road.

The high popularity of the region can be attributed to Incheon International Airport, which has been picked as the airport with the best service in the world for nine consecutive years. Just a 20 minute drive away from Songdo International City, the airport is a hub of transportation, connecting 61 cities with at least one million residents each within a three-hour flight. In addition, the IFEZ provides easy access to the metropolitan area, and ensures the supply of highly-educated manpower. World-renowned educational institutions like the Chadwick International School can now be found there, along with expat-friendly residential environments.

## Compact, Smart, Green City

At present, the IFEZ is moving ahead with various city-improvement projects. For example, it is digitalizing city management and daily living services as a whole in the framework of the U-City Project, while planning to reduce annual carbon emissions by at least two million tons by 2020 in the Eco Green City Project. The Songdo Waterfront Project is making better use of the abundant water resources in the district, and the Cultural City Project is adding flavor and color to the economic zone.



Foreign investors are particularly interested in the IFEZ's transformation into a compact, smart, green city. A compact city can be defined as a place where all urban resources can be found within a 30 to 40 minute walk. Songdo is a futuristic self-sufficient city in which this idea is made real. A wide variety of facilities for everyday living and business, ranging from leisure and education to shopping, conventions, and medicine, are provided within a 5 km radius.

A smart city is an environment where networks and computers are available everywhere. In Songdo, wired and wireless networks linked to smartphones and the Internet form the foundation of real-time convergence services for telecoms, traffic, water, electricity, medicine, and many other purposes in the most advanced city management system.

The IFEZ Low Carbon Green City Declaration of June 2011 has been a starting point to turn Songdo into an eco-friendly city. Having a green area ratio of 30 percent, the district runs its own automated waste disposal systems and is well known as a city without a need for garbage trucks. Also, used water is treated and recycled for restroom cleaning, landscaping, and street sweeping. Incidentally, the Songdo Central Park is the world's first park with flowing seawater.


At the same time, the IFEZ is in pursuit of a unique method of development based on convergence among service sectors such as education, knowledge services, leisure, and MICE. Songdo is expected to be a global linchpin of the biotechnology industry by 2016. The city has already attracted 657 companies and three research institutes hiring 5,940 employees in the IT and semiconductor industries, including Amkor Technology and the BMW Driving Center. The Shinsegae Complex Shop-

ping Mall in Cheongna, Lotte Shopping Town, E-Land Shopping Mall, and the Hyundai Department Store Outlet in Songdo will turn it into a global shopping hub. Hana Financial Town with 5,800 potential employees and the MIDAN City Casino Resort, estimated to create 35,000 jobs, are just two examples of its successful outcomes. To sum up the business environment, out of the 80 Most Respected Companies selected by Fortune magazine, 10 percent are found in the IFEZ. It is the perfect incubator for convergence services.

## Driver for Growth of Service Industry

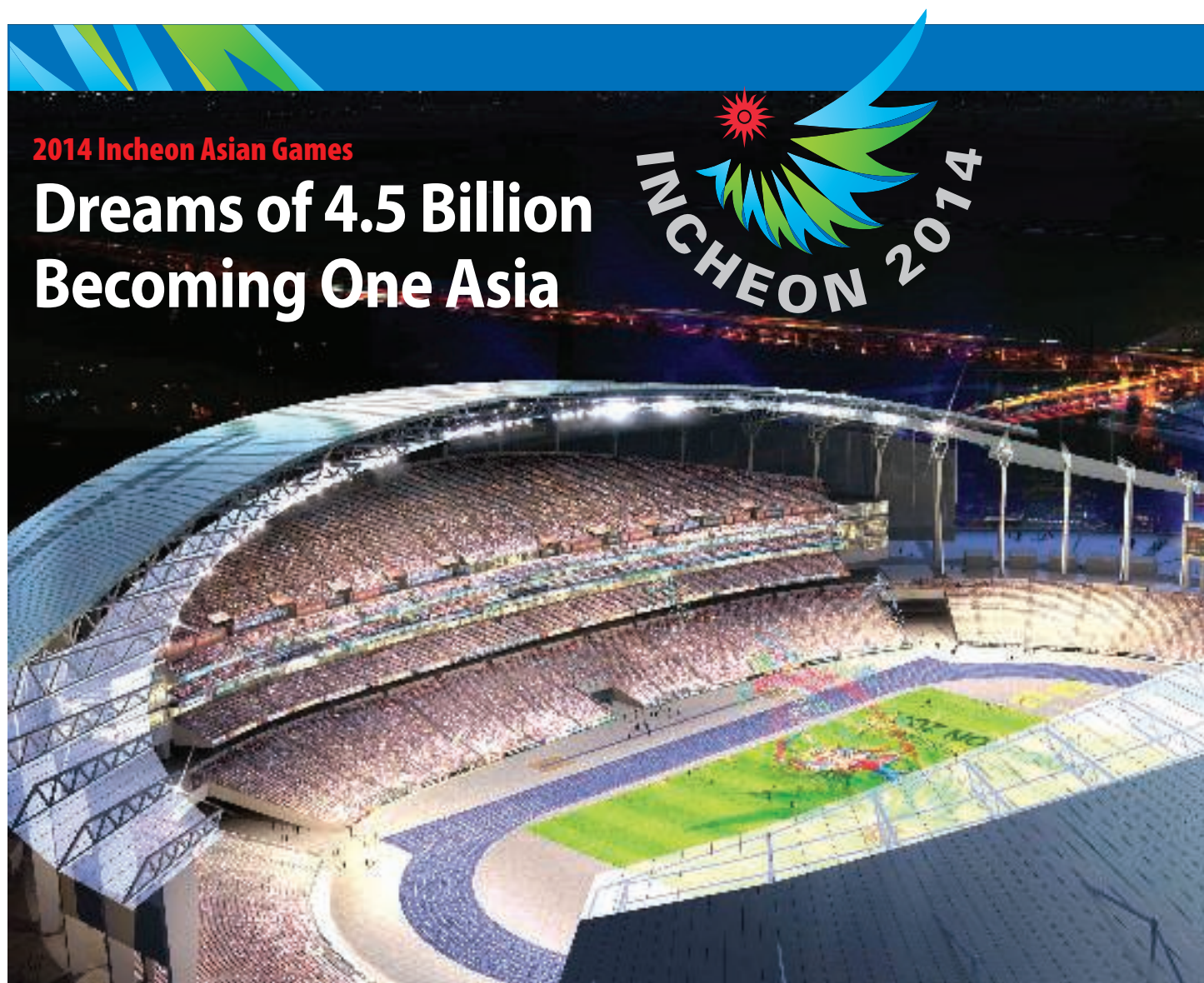
The economic zone's next goal is to become the global center of the service industry. This plan is likely to be bolstered by the Park Geun-hye administration's strong drive for the growth of the service sector by means of deregulation.

"The endeavor for the promotion of the service industry for economic growth and job creation starts from the IFEZ," said Lee Jong-cheol, commissioner of the Incheon Free Economic Zone Authority. He added, "Accounting for 0.2 percent of the national territory and 0.4 percent of the population, the region is a perfect place for the testing of diverse industrial systems, development models, and urban planning schemes, as well as the most suitable testbed for deregulatory policy measures."

He continued to emphasize that the IFEZ is a new economic growth engine of Incheon City, the cornerstone for its urban renovation, and the hope and pride of the city. "We will turn the IFEZ into an international business capital by attracting service sectors and providers through creating high added value," he explained. 



Night View of Songdo



2014 Incheon Asian Games

# Dreams of 4.5 Billion Becoming One Asia

The Incheon Asian Games kicks off on September 19. Incheon City is focusing on overseas marketing and public relations with the opening around the corner.

The Incheon Asian Games Organizing Committee (Chairman Kim Young-soo) signed a ticket sale contract with Taobao in Beijing in mid-July. The signing ceremony was attended by Hyun Bin, who was appointed as the honorary ambassador for the Asian Games on July 4. The celebrity, who is enjoying huge popularity in China, delivered the online Smart Torch to the president of the Chinese online shopping mall so that ticket sales could be successful in China. The organizing committee is expecting

that the contract with Taobao, which has more than 500 million members in China, will contribute greatly to increasing the Chinese people's interest in the Incheon Asian Games.

## First Smart Torch Relay in the History of Asian Games

The purpose of the unprecedented online torch relay is to attract more people to the international sports event and better promote it all across the world. The relay can be joined on smartphones and tablet PCs.

The Smart Torch Relay application is available in four languages – Korean, English, Japanese and Chinese – and can

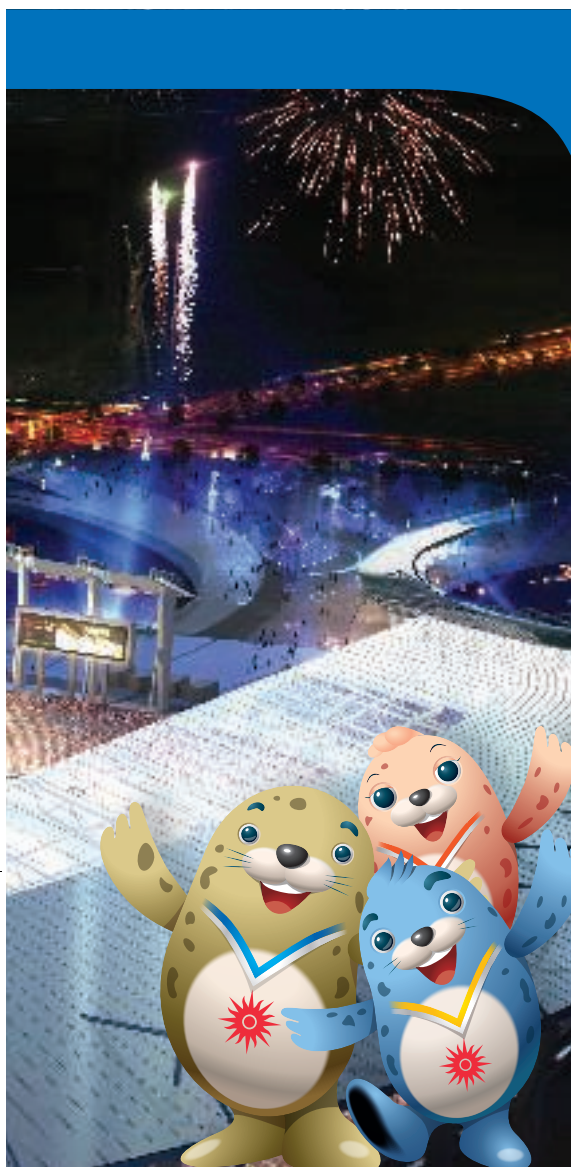
be shared via Facebook, Twitter, Kakao Talk, Line, Weibo, and Wechat. Also, it can be relayed via near-field communication. The organizing committee is aiming for 10 million users to download the application.

In addition, the committee is planning on an online torch relay at the same time as that of the offline torch that starts in August. It is trying to publicize the event by cooperating with more portal sites and SNS channels.

## Promotion Getting Closer to the Public

The Incheon International Airport has been utilized as a tool for promotion,





too. For instance, promo videos have been shown on Media Walls, U-Signage, and Multi Cubes at the airport to achieve a high publicity effect. Publicity towers have been built at the City Hall subway station and the Seoul Plaza in Seoul, too.

The Asian Games Promotion Team is doing a lot as well to draw the attention of the public. It is traveling across the country from August 8 to 28 with a group called the Young Supporters in order to raise awareness by means of flash mobs, street promotion campaigns, and JYJ's theme song titled Only One.

Elementary school teachers in Incheon and its partner cities have been appointed as publicity committee members, too. They visit 89 primary schools

until late July to teach the Only One dance and conduct quiz events.

## Meet the Future of Asia in Incheon

The opening and closing ceremonies of the Incheon Asian Games share the theme of "Dreams of 4.5 Billion Becoming One Asia." The opening event will be held on the theme of "Meet the Future of Asia," and the closing ceremony's title is "Asia Will Remember Incheon."

The opening show takes place at 6:00pm, September 19, at the Incheon Asiad Main Stadium. Soprano Jo Su-mi and a choir of 919 Incheon citizens will sing the Asiad Song, which is based on lyrics dedicated to the Games by poet Ko Un. Then a boy will drive a hoop to symbolize the rendezvous between the past, the present, and the future of Asia.

The opening and closing shows will be decorated with a number of artists and celebrities. World stars like JYJ, Psy, and Big Bang will join soprano Jo Su-mi and renowned actress Lee Young-ae, actor Jang Dong-gun, Chinese pianist Lang Lang, and many more.

The closing ceremony, scheduled for 6:00pm, October 4, will feature traditional choreographic and martial arts of Korea along with highlight footage of the 16-day event. The athletes will march with their national flags before each closing declaration, flag transfer, and cultural performance by the next hosting country. Then, the torch will be put out, and the musicians will stage colorful shows to mark the closing of the event.

In the ceremony, the Incheon Asian Games Young Supporters will welcome the athletes. The supporters will represent citizens of Incheon, who will root for them regardless of nationality throughout the 16-day period. The Young Supporters will enter the stadium with the athletes to symbolize a united Asia.

## Asian Culinary Culture Festival Adding Flavor to Sports Event

The Incheon Asian Games is also expected to be a venue where cuisines of a wide variety of countries will be paraded. The Asian Culinary Culture Festival inviting restaurants and master chefs from ten Asian countries will provide visitors with excellent things to see and taste.

The Luxury Cuisine Hall, Korean Cuisine Hall, Event Hall and the like are set up in the plaza in the vicinity of the stadium. The recommendation of restaurant and chef invitees is underway with foreign cultural centers, tourism offices, and embassies in Korea. The organizing committee is going to donate the profits for children in underdeveloped Asian countries.

## Safest Asian Games in History

The committee will cooperate with the National Intelligence Service, the military, and the police and fire authorities for seamless safety and security measures as well. A large-scale anti-terrorism drill took place from 11:00am, August 6 at the main stadium in this context, joined by 700 personnel from nine organizations. During training, simultaneous terrorist attacks against the main sites were assumed, and the joint response system against serious loss of life was checked, along with evacuation plans and tactics for preventing the approach of unmanned aerial vehicles.

The committee is going to run advanced security devices such as X-rays, MD, vehicle inspection equipment, and RFID systems, and provide evacuation guides and safety education for the visitors. Videos informing everything about where and how to escape in the event of an emergency have already been made for each stadium, and security education for the staff has continued.

Top-notch medical services have been prepared as well. A total of 74 official hospitals and 1,876 personnel will be in operation for medical services, health-care, hygiene control, and doping control. 105 dispensaries are planned to be set up in the athletes' village, stadiums, and other locations in the complex. <sup>OK</sup>

## Tax for Economic Revival

# 10% Tax to be Imposed on Internal Cash Reserves of 5,000 Companies



## MINISTRY OF STRATEGY AND FINANCE

The rate of tax (return tax on corporate income) posed on corporate internal cash reserves, money neither invested nor paid out as dividends, has been determined to be 10 percent. This tax primarily targets big corporations, but the rate is universally applicable regardless of industry and profit range.

A high ranking officer at the Ministry of Strategy and Finance said on July 28, "10 percent of tax will be imposed on the part of corporate income not used in investments, dividends, or wage raises." For example, if Company A has profits of 100 billion won in 2015, and 50 billion won is left at the end of 2016 after spending 50 billion won in investment, dividends and salary raises, 5 billion won in taxes (10 percent of the remaining 50 billion won) will be imposed in 2017.

The government is trying to design the tax structure in a way that corporations are exempt from the tax when they spend 60-70 percent of their profits, but this rate is not firmly determined yet.

The government also decided not to include overseas investment or non-

business purpose real estate in the definition of investments, when companies acquire shares through M&As in order to avoid taxes.

Accordingly, approximately 5,000 companies will have to pay the tax on corporate internal cash reserves. A high-ranking officer at the Ministry of Strategy and Finance said on July 29, "After setting up the criteria to determine target companies, we narrowed down around 5,000 companies, the top 1 percent of a total of 500,000 companies in Korea by size."


The Ministry of Strategy and Finance will first designate as taxable all companies included in mutual investment regulated corporate groups by Fair Trade Commission. Currently, 1,677 affiliate companies in 63 groups including Samsung, Hyundai Motors, SK, and LG are included. 3,000 mid-size corporations with more than 40 to 50 billion won worth of equity capital, not a part of big groups, are also taxable. All small-sized companies are exempt.

The Ministry of Strategy and Finance will predetermine the taxable

companies on corporate cash reserves accordingly, and impose a return tax on corporate income if candidate companies do not spend a certain portion of their income in dividends, investments, or employee salaries. Candidate companies could choose either to spend 60 to 70 percent of their income in all three areas of investments, employee salaries, and dividends (option 1), or to spend 20 to 30 percent of their income in the two areas of wages and dividends (option 2), in order to be exempt from the relevant tax.

However, corporate sectors are strongly resistant to tax on excessive cash reserves. Choi Seung-jae, an attorney at Kim & Chang, claimed at the seminar for tax on corporate internal cash reserve, issues and assessments held by Korea Economic Research Institute (KERI), "If another tax is imposed on the remaining amount after corporate tax payment, this is clearly a double taxation on companies." Kwon Tae-shin, President of KERI, said, "The purpose of increased corporate cash assets is to be well prepared for uncertainties in the future. Government policies should focus on policy transparency and regulation reform."

The government bill will be, however, submitted to the National Assembly after discussions with the ruling party. If this bill is passed in the National Assembly this year, the tax is effective starting from the profits next year. If corporations fail to consume excessive cash by the end of 2016, they have to pay tax from 2017.

On the contrary, Choi Kyung-hwan, deputy prime minister for economic affairs, emphasized the necessity of interest rate deduction at the Korea Broadcasting Journalists Club debate, saying "[The Bank of Korea] also agrees that quantitative easing is necessary." 





Harm to National Economy

## Fake Products Account for 0.4% of National GDP

Korea's imitation market is estimated to have reached 5.2 trillion won (US\$5.1 billion) in size last year, which is equal to 0.4 percent of the nominal GDP for 2013.

The taxation authorities failed to collect 520 billion won (US\$507 million) in tax from the domestic counterfeit product market last year. The amount is equivalent to 0.3 percent of the national tax income for 2012, when Korea recorded a tax income loss of 2.8 trillion won (US\$2.7 billion). Experts point out that the tax sources in the fake product market should be brought to light as early as possible, with the tax revenue expected to record a loss of 10 trillion won (US\$9.9 billion) this year due to the economic slump.

The Hyundai Research Institute announced recently that the imitation market in Korea is estimated to have reached 5.2 trillion won (US\$5.1 billion) in size last year, which is equal to 0.4 percent of the nominal GDP for 2013. Earlier than that, the OECD mentioned that fake products accounted for 2 percent of the total international trade as of the end of 2007. The United Nations Office on Drugs and Crime (UNODC) also quoted it to say that a total of US\$25.2 billion worth of imitation products, equivalent to 2 percent of the gross imports, were exported from Southeast Asia to the U.S. and Europe in 2010.

"Based on the OECD data, fake


products imported into Korea are estimated at 11.4 trillion won (US\$11.3 billion), or 2 percent of its total imports, and the size of such products produced in Korea is expected to be around 14.8 trillion won (US\$14.7 billion)," said Hyundai Research Institute analyst Baek da-mi, adding, "The actual size of the domestic imitation market is predicted at 5.2 trillion won (US\$5.1 billion), 2.3 trillion won (US\$2.2 billion) of it on the import side, and the rest relating to domestic production, given that such products are distributed at prices lower than those of the others." She continued, "It is impossible to predict how much cheaper a fake product is than its genuine counterpart and, although we used a ratio of 20 percent in the calculation, the market size could increase to 7.8 trillion won (US\$7.7 billion) if a price ratio of 30 percent is adopted."

The problem is that the market is severely affecting the national economy. First of all, tax evasion is estimated to be 520 billion won (US\$508 million) a year on the assumption of a price ratio of 20 percent and a value added tax rate of 10 percent.

In addition, the consumption of products similar to genuine goods

declines when fake products' popularity goes up. In particular, imitated foreign brand products take the place of domestically-produced ones having similar price ranges, which means local industries could lose a chance to grow themselves.

Korea ranked 15th in 2011 on the list of countries engaged in counterfeit product transactions. According to the Korea Customs Service, an average of 497 fake products worth 754.8 billion won (US\$737 million) were imported into Korea each year between 2011 and 2013. Up to 90 percent of them, costing 635.6 billion won (US\$621 million), infringed upon trademark rights.

Handbags and leather goods (24.4 percent) were on top of the list on a money basis, which were followed by watches (22.2 percent), medicine (17.9 percent), garments and textiles (10.7 percent), and shoes (5.2 percent). The most frequently uncovered ones were garments and textiles (190 times), handbags and leather goods (144 times), and shoes (90 times). 96.8 percent, or 701.4 billion won (US\$684.9 million), of the exposed counterfeit products were from China. 

Coming Back

# Global Investors Rushing Back to Korean Stock Market

Foreign investors are focusing their investment on those companies with positive outlooks or expected to benefit from government expansive economic policy.

Foreign investors are returning to the Korean stock market on the expectations of the new economic policy of Deputy Prime Minister Choi Kyung-hwan, recovery of the Chinese economy, positive corporate performance forecasts, and abundant global liquidity. The stock index is expected to continue its upward trend until the third quarter of this year.

According to the Korea Exchange, foreign investors recorded net purchases of 2.5845 trillion won (US\$2.5197 billion) this month alone, including 174 billion won (US\$169 million) on July 28. The monthly amount was 1.1223 trillion won (US\$1.0944 billion) last month and that for July is expected to exceed this year's high, recorded in April, of 2.8018 trillion won (US\$2.7321 billion). Between January and July 28, the net purchases amounted to 4.9478 trillion won (US\$4.8228 billion), whereas the yearly total for 2013 was 3.4111 trillion won (US\$3.3263 billion). The ratio of foreign investment hit a new high, too. The total market capitalization owned by foreign investors reached 432.65 trillion won (35.30 percent) on that day. The previous high had been 431.8 trillion won (US\$420.9 billion), posted on October 30 last year.


The investors are focusing their

investment on those companies with positive outlooks or expected to benefit from government policy. For instance, they bought 2.571 trillion won (US\$2.507 billion) in shares of Samsung Electronics this year along with those of LG Electronics (677.6 billion won, US\$660.8 million) and LG Display (463.7 billion won, US\$452.2 million), both of which are enjoying the strong sales of the LG G3 smartphone now. Banking stocks such as Hana Financial Holdings (620.3 billion won, US\$604.9 million) and Shinhan Financial Holdings (358.2 billion won, US\$349.3 million) were also preferred thanks to the government's stimulation policy, and Kia Motors (418.8 billion won, US\$408.4 million) joined the list as well, which is forecast to show a turnaround in the second half.

The fund inflow is likely to continue in the third quarter, owing to the policy momentum and the return of global funds to emerging economies. In addition, the other emerging stock markets such as India, Taiwan, and Indonesia have gained a lot so far, which means that the Korean stock market has enough room to go up. The Korean bourse is distinguishing itself this month in particular. According to KDB Daewoo Securities, a total of US\$2.362 billion flowed

into the Korean market this year, while the amounts were US\$2.196 billion for India, US\$1.124 billion for Indonesia, and US\$746 million for Taiwan. In the first half, there was US\$9.917 billion for India, US\$3.836 billion for Indonesia, US\$9.419 billion for Taiwan, and US\$2.295 billion for Korea.

"The Korean government's economic stimulus policy appears to have a greater impact than expected," said Jung Chang-won, director of the Korea Research Center of Nomura Financial Investment, adding, "Also, policy measures relating to dividends that can directly influence stock investment are coming out to add to the positive effect." He continued, "Many investors estimate that the KOSPI can reach 3,000 points once the dividend payout ratio goes up to 50 percent or so, and foreigners have begun to make long-term investments on such expectations."

IBK Investment and Securities Research Center head Lee Seung-woo echoed the sentiment by saying, "Anticipation for an interest rate cut, which is seen in few other emerging markets, will allow more and more funds to flow into Korea down the road, and the KOSPI will be able to keep rising upward, as detailed measures of the new economic policy are made available in the future." 

## Business Scandal

# Mirae Asset in Trouble for Coffee Bean Acquisition

**T**NPI, the Coffee Bean & Tea Leaf's franchise company in China, recently sued Mirae Asset Chairman Park Hyun-ju. The case has been assigned to the Seoul Central District Prosecutor's Office.

Earlier this month, the Prosecutor's Office investigated the CEO of TNPI as the plaintiff. The company signed an exclusive contract with CBTL Franchising, the head office of The Coffee Bean & Tea Leaf, in May 2012 to run branches of the brand for 10 years in China. At that time, TNPI invested 34 billion won (US\$33.1 million) and was in need of an additional 40 billion won (US\$38.9 million) of future business. Mirae Asset stepped in to fund the venture.

According to TNPI, Mirae Asset said that it was willing to make an investment in TNPI in October 2012, and sent a due diligence team to China. The team visited TNPI and called for all data associated with the Coffee Bean business, sending the TNPI CEO a text message promising that every bit of investment-related data would remain confidential and the investment plan would be examined expeditiously. But, after receiving the investment information, Mirae Asset told TNPI that it would not make the investment.

## Strange Behavior

Later, Mirae Asset received an investment proposal from CDIB, a U.S.-based fund that is also a former investor in Mirae Asset, for a Coffee Bean acquisition in January 2013. Together, they formed a consortium to purchase 75 percent of the shares at a cost of about 400 billion won (US\$388 million). Mirae Asset secured 20 percent of the shares



Mirae Asset has been mingled in the legal issue that whether or not it obtained the confidential business information of TNPI under the pretext of investment,

by spending approximately 75 billion won (US\$72.9 million).

The legal issue is whether or not Mirae Asset obtained the confidential business information of TNPI under the pretext of investment, and then appropriated it for its own interest. "Mirae Asset acquired the head office in the U.S. by making use of our confidential information before trying to take economic profits by getting the business rights in China," TNPI asserted.

Mirae Asset has refuted the argument, claiming that it is ludicrous, but the company's stance is losing credibility. In August last year, when the company was going for Coffee Bean, securities analysts asked the reason for the acquisition with the Korean and American coffee markets already in saturation. "Coffee Bean is doing its business around the world, and we are targeting the Southeast Asian markets and China, not limited to the Korean market," a company representative answered.


Statistics support this point, too. According to a Chinese survey agency, franchise coffee shops in China have recorded a growth rate of as high as 15 percent each year. The number of cafes in China topped 34,000 last year, and the combined sales amounted to 10.2 trillion won (US\$9.9 billion). The number of potential coffee consumers is estimated at between 200 and 250 million, and the

Chinese coffee market is expected to be second only to the U.S. by 2020.

## Controversy Arising for Input of Public Funds

"We have acquired less than 20 percent of the head office shares and have not participated in the management," a Mirae representative said in response, continuing, "The investment in Coffee Bean was led by the PEF Division of Mirae Asset Global Investments, but TNPI sued not the division but the chairman in order to highlight the issue on purpose."

The problem is that the business of TNPI has been halted due to the tug of war between the two parties. Besides, the public funds from the National Pension Service and the Korea Finance Corporation are included in the 75 billion won (US\$72.9 million) spent on the acquisition. Under the circumstances, the equity value could be dropped, not to mention the lack of dividend income. "If what TNPI says is true, the case corresponds to tyranny by a big business," an industry insider explained.

In the meantime, Mirae Asset is under wide investigation by the financial authorities for its allegations of illegal support for subsidiaries and unfair transactions in 2006 during its listing on the stock market. 



## Earnings Aftershock

# Electronics Subsidiaries of Samsung Group in Calm Before the Storm

The Samsung Group's move aimed at spurring management innovation to overcome limits to growth has put Samsung subsidiaries on edge. As business restructuring and reorganization is scheduled in August, subsidiaries are keeping their eyes and ears alert for possible targets and the extent of restructuring.

Some Samsung electronics business subsidiaries, which took a direct hit from the earnings shock of Samsung Electronics, are likely to be targeted. Samsung Electronics itself is preparing for a rearrangement of personnel in the main office next month. Samsung Display is likely to downsize the workforce through a voluntary retirement program, following Samsung SDI's example.

According to sources close to Samsung on July 30, Samsung Display is going to implement a major restructuring of the business in August. The company is reportedly reviewing a measure aimed at preemptively managing risk by instituting a voluntary retirement plan, since its Q2 earnings is likely to fall short of expectations in the second quarter of this year. In Q1, Samsung Display recorded 120.4 billion won (US\$117.0 million) in operating profits. Observers say that the company's operating losses in Q2 are estimated to be bigger. The phenomenon is due to the fact that Samsung Electronics' worsening performance is affecting major suppliers like Samsung Electro-Mechanics, Samsung SDI, and Samsung Display. Moreover, Samsung Display relies heavily on Samsung Electronics for its sales. In fact, Samsung Electronics made up more than 60

percent of Samsung Display's sales as of Q1 2014. As a result, Samsung Display is more likely to undertake the most intensive corporate restructuring among Samsung subsidiaries related to Samsung Electronics.

## Samsung SDI's Shabby Performance

In particular, the operating profits of Samsung SDI during the second quarter was just 700 million won (US\$681,996), turning into a surplus from a loss, but this is 97.8 percent less than the same period last year.

Samsung SDI announced on July 28 that during the second quarter, sales were 1.486 trillion won (US\$1.445 billion), operating profits 700 million won (US\$681,996), and net income 2.05 million won (US\$1,997). Sales decreased 19.8 percent, operating profits 97.5 percent, and net income 84.5 percent from last year, so much worse than what the securities industry expected.

As sales of Samsung Electronics' smartphones are sluggish, small batteries are collapsing. The exchange rate crisis and POP sales decrease were also the main reasons for bad performance.

Securities companies continue to make negative projections. Dongbu Securities worried, "Earning shocks below market expectations are lasting every quarter. Predictability is extremely low, as new businesses are in their entry level, traditional strong businesses are shaking, and declining industries



Some Samsung Electronics business subsidiaries took a direct hit from the earnings shock of Samsung Electronics.



are restructuring.”

NH Investment and Securities also projected that new businesses will take more time to realize profits, which is very negative. NH Investment and Securities explained, “We maintain our investment opinion on Samsung SDI as market average. Growth of operating profits is very limited, since the sluggishness of small secondary cells, contributing a lot to performances, is clear.”

Furthermore, NH Investment and Securities forecasted, “Even with the external growth of electric vehicles (EV) and an energy storage system (ESS), new growth drivers of Samsung SDI, it is very slow to improve profits. In the material fields, separation films and Active Matrix Organic Light Emitting Diodes will need more time to realize profits.”

There were projections that performances will be improved during the third quarter. Hana Daetoo Securities predicted that the external growth of SDI was limited so far, but this will be overcome thanks to M&As, and that profits will be improved in all business sectors.”

With negative projections, Samsung SDI has already started to reduce its operations through a voluntary retirement program prior to the withdrawal of its PDP business scheduled in November. The program will last until the end of August.

Samsung Electronics also made a decision on who will be dispatched to local branches. Previously, the company announced that 150 to 200 people out of 1,000 working at its Seocho and Suwon offices will be reassigned to the information technology & mobile communications (IM) division, the consumer electronics (CE) division, and the device solutions (DS) division.

## Samsung Electro-Mechanics Takes Direct Hit

Samsung Electro-Mechanics also suffered a huge loss in operating profit. Its operating profit was 8.5 trillion won (US\$8.3 billion) in the second quarter of this year, a year-year decrease of 90.5 percent. The company turned over 1.8607 trillion won (US\$1.8125 billion) in Q2, a 7.6 percent quarter-on-quarter increase, but down 22.0 percent from a year ago.

The company explained that amid the slowdown in global smartphone market growth, its sales growth weakened due to a reduction in major customer companies' demand and a rise in

inventory for mid to low-end smartphones. Its operating profit increased by 40.5 percent in Q2 compared to the previous quarter, thanks to efforts to increase profitability by improving manufacturing yield. However, its operating profit plummeted in the second quarter compared with the same period last year, affected by intense competition and the unfavorable won-dollar rate.


Samsung Electronics is the largest customer company, accounting for 60 percent of Samsung Electro-Mechanics' sales as of 2013. Hence, when Samsung Electronics exhibits poor performance, Samsung Electro-Mechanics has no choice but to struggle. It is not an overstatement to say that Samsung Electronics reported an earnings shock in Q2. On July 8, the tech giant announced that its sales in Q2 are estimated at 52 trillion won (US\$50.7 billion), with gross operating profits at 7.2 trillion won (US\$7.0 billion). The firm's sales decreased 9.5 percent year-on-year, and its operating profits were reduced by 24.5 percent compared to the same period last year. The tech company's worsening performance is mainly attributable to a reduction in sales of smartphones produced by the information technology & mobile communications (IM) division, stemming from the stalled growth of the smart phone market. The IM division represented 60.7 percent of Samsung Electronics' sales last year, with 67.8 percent of the company's operating profits.

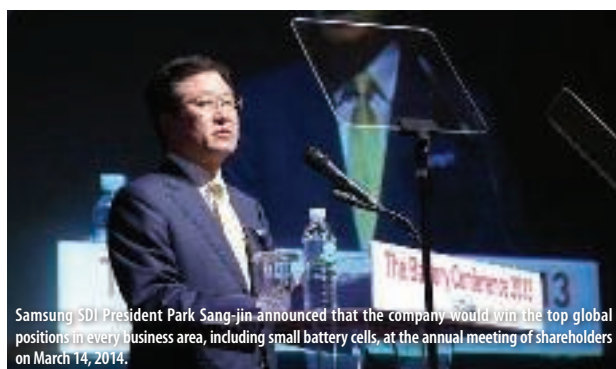
Samsung Electronics has recently stepped up efforts to escape from the crisis, as shown by the fact that executives in the IM division gave up 25 percent of their bonuses in order to achieve the sales target for the first half of this year. Nevertheless, the company's lackluster sales of smartphones are expected to continue. Therefore, the company is unlikely to show as good performance as it did in the past. The release of the iPhone 6 in the fall is expected to aggravate the problem. Experts are saying that Samsung subsidiaries like Samsung Electro-Mechanics are also going to suffer from Samsung Electronics' poor performance.

## Rumor of Executive Changes

The rumor about changing presidents in August is widely circulating. Samsung usually announces new personnel appointments on the first or fifteenth day of each month, but division heads have been changed very often since May.

New large-scale staff appointments announced on May 1 were aimed mostly at the Future Strategy Office (FSO), the de facto control tower of Samsung Group. On July 1, a new head of the DS division was appointed. Due to a growing sense of crisis at Samsung Electronics suppliers, many in the industry think that some of the presidents and executives in each division will be reassigned in August.

The leading members of the group such as executives at the FSO are spending their summer vacation in their office to come up with a strategy to overcome the crisis. A Samsung associate said, “The earnings shock of Samsung Electronics is heavily affecting other Samsung subsidiaries.” The official added, “But it will be an opportunity to strengthen Samsung's DNA that overcomes crises and achieves innovations.” 



Samsung SDI President Park Sang-jin announced that the company would win the top global positions in every business area, including small battery cells, at the annual meeting of shareholders on March 14, 2014.



## Capital Exchange

# Korean, Chinese Capital Markets Becoming Closer-knit

Exchange between the capital markets of Korea and China is picking up speed as they consider each other to be highly-attractive markets.

Investors in Korea are looking forward to a high yield with a low interest rate going on and the Korea Composite Stock Price Index (KOSPI) drifting sideways. The Chinese financial authorities are moving ahead with plans for more IPOs and the introduction of preferred stock issuing, and the Chinese stock market is poised to move upward from the box pattern that has continued since 2008. The Shanghai Index gained 11.8 percent during the past three months and the one- and three-month yields of the China funds in Korea have reached 8.85 percent and 11.65 percent, respectively.

In the meantime, Chinese investors are expecting some long-term profits from the Korean stock market, which has been particularly undervalued among emerging countries. According to the Financial Supervisory Service, Chinese funds' net purchase of Korean stocks increased from 881.2 billion won (US\$856.3 million) to 2.208 trillion won (US\$2.145 billion) between 2009 and 2013, and amounted to 1.885 trillion won (US\$1.830 billion) during the first seven months of this year, which is second only to that by U.S. investors (2.414 trillion won, US\$2.344 billion).

The number of Korea-related investment products is on the rise in China, too. For instance, EFund Management is planning to list a KOSPI 200 ETF on the Shanghai Exchange within this year. The asset management firm signed a contract with the Korea Exchange last year to use the KOSPI 200. "Most of the Chinese funds investing in Korea now are institutional investors," said Index Marketing Team manager Choo Kil-ho at the Korea Exchange, adding, "Once the KOSPI



A bank employee displays both Korean won (left) and Chinese yuan (right). (Photo via Korea Exchange Bank)

200 ETF is listed, individuals can also invest in the Korean bourse even with a small sum."

The capital market exchange is also accelerated by the agreement on direct won-yuan trading, which was determined during President Xi Jinping's state visit to Korea last month, and the granting of an 80 billion yuan (US\$13 billion) RQFII. "The direct trading is likely to result in greater inflow of Chinese funds into Korea," Shinhan Investment Corporation research analyst Han Bum-ho explained, continuing, "In addition, the RQFII will lead to more products for investment in China, which, in turn, will boost financial exchange between the two countries."

## Yuan Preference


In the mean time, the balance of dollar-denominated deposits is at a record low due to a rising preference for the yuan.

According to the Bank of Korea, the dollar-denominated deposits in resident accounts totaled US\$40.27 billion, 64.5 percent of all foreign currency depos-

its, as of the end of July. The percentage was as high as 83.1 percent a year ago, 74.1 percent late last year, 73.7 percent in March this year, and 69.0 percent in June.

Meanwhile, the ratio of yuan-denominated deposits has skyrocketed from 0.8 percent to 25.9 percent between July 2013 and July 2014. The amount increased 56-fold from US\$290 million to US\$16.19 billion during the same period. US\$4.22 billion was added to the total in July 2014 alone to reach new highs in amount and ratio alike.

The rapid surge can be attributed to some Chinese banks' upward adjustment of the deposit interest rate to 3.8 percent. Korean banks provide an annual interest rate of 2.68 percent for won-denominated deposits with a maturity of one year.

With the interest rate gap widening, both institutional investors and residents in Korea increased their deposits in Chinese banks to a large extent. As of the end of last month, the total foreign currency deposit increased by US\$3.5 billion month on month to US\$62.45 billion. 





## Exodus of Money

# Rich Koreans Withdrawing Huge Amounts of Won from Banks



Depositors clamor to withdraw their savings from a bank in Berlin on July 13, 1931. (Photo by Georg Pahl via Wikimedia Commons)

A lot of wealthy people in Korea have been withdrawing billions won from banks recently, a so-called “exodus of money.” This money exodus started one or two years ago, and has been proven by the statistics of the Bank of Korea.

According to the statistics of Bank of Korea, individual or corporate accounts with amounts greater than 500 million won (US\$484,470) in commercial banks have constantly increased, to a total of 79,940 accounts in 2011. The amount, however, started to decrease from 2012, and there were only 72,400 such accounts last year. The total balance of those accounts increased by 80 trillion won (US\$77.5 billion) within one year of 2010, but decreased by 13.7 trillion won (US\$13.2 billion) last year.

Wealthy people have three major reasons for this withdrawal trend. The first one is that the Foreign Account Tax Compliance Act (FATCA), started by the U.S. government in July, is effective in Korea as well. FATCA requires financial companies to report the names and account balances of overseas financial accounts, if U.S. citizens or permanent residents have them, to the U.S. tax authority. As the automatic exchange of tax information between Korea and the U.S. was concluded, Korean financial institutions should report the list of U.S. clients with more than US\$50,000 (51.6 million won) in assets to the US government. If unreported overseas assets are revealed, the U.S. government imposes multi-million dollar fines. Accordingly, rich US citizens and permanent residents who live in Korea have moved their assets to gold or commercial real estate.


The second reason is that the targets of aggregate taxation on financial income expanded to people who have more than 20 million won (US\$19,397) of financial income annually

(originally 40 million won, US\$38,726). The maximum tax rate of aggregate taxation on financial income is 41.8 percent.

Considering the current one year interest rate of a savings account is around 2.7 percent, deposits of 800 million won (US\$775,152) or more are imposed with an aggregate taxation on financial income. Many wealthy people are withdrawing their deposits in order to avoid taxes.

The third reason is the “prohibition of borrowed name financial transaction act” coming into effect in November. This act targets people who put their money under the names of other people (including family) to avoid taxes and hide assets by hitting them with criminal penalties (imprisonment under five years or fines under 50 million won, or US\$48,494). Before this act officially starts, wealthy people who have their money under borrowed names are moving their money out.

Then where does all the money go? Bankers assume that many rich people have their deposits in the form of checks, or invest in insurance or commercial real estate including shopping malls. A representative at a commercial bank said, “VIP clients with U.S. citizenship surged into banks during May and June. Two thirds of clients withdrew their deposits into checks in order to temporarily avoid risks.” Many people would have changed their cash into gold. According to Korea Gold Exchange, the gold bars sold during the first half of last year totaled 292kg, but this increased by 47.6 percent to 431kg during the first half of this year.

Banks are worried about a second deposit exodus before November when the prohibition of borrowed name financial transaction act becomes effective, even though the first deposit withdrawal crisis stabilized recently. 



## Korea's Rich

# 400 Richest Koreans in Possession of 184 Trillion Won in Personal Assets

All of the top 10 of Korea's rich gathered their wealth through inheritance.

A total of 35 individuals in Korea own total assets of more than one trillion won each as of the end of July, and only 10 out of the 35 have self-made fortunes.

Chaebul.com recently looked into the personal assets of the largest shareholders and managers of 1,883 listed companies and 21,280 non-listed companies with assets of over 10 billion won, and announced that the combined wealth of the top 400 were 183.929 trillion won (US\$178.087 billion), which is 459 billion won (US\$444.8 million) on average per person. All of the top 10 gathered their wealth through inheritance.

Samsung Group Chairman Lee Kun-hee is first in line. His assets amount to 13.287 trillion won (US\$12.881 billion), including his shares in listed and non-listed subsidiaries and real estate properties. He was followed by Hyundai Motor Group Chairman Chung Mong-koo (7.644 trillion won, US\$7.411 billion), Samsung Electronics Vice Chairman Lee Jae-yong (5.179 trillion won, US\$5.014 billion), Hyundai Motor Group Vice Chairman Chung Eui-sun (4.462 trillion won, US\$4.326 billion), Amore Pacific Group Chairman Suh Kyung-bae (4.34 trillion won, US\$4.208 billion), SK Group Chairman Chey Tae-won (3.05 trillion won, US\$2.95 billion), Kyobo Group Chairman Shin Chang-jae (2.237 trillion won, US\$2.166 billion), Lotte Group Chairman Shin Dong-bin (2.192 trillion won, US\$2.122 billion), CJ Group Chairman Lee Jae-hyun (2.156 trillion won, US\$2.089 billion) and Lotte Japan Vice Chairman Shin Dong-joo (1.969 trillion won, US\$1.907 billion).

Shinsegae Group Chairwoman Lee Myung-hee recorded total assets of 1.896 trillion won (US\$1.835 billion) and LG Group Chairman Koo Bon-moo posted 1.781 trillion won (US\$1.726 billion). They were followed by Leeum Samsung Museum director Hong Ra-hee (1.496 trillion won, US\$1.448 billion), KCC Group Chairman Chung Mong-jin (1.362 tril-

lion won, US\$1.318 billion), Shinsegae Group Vice Chairman Chung Yong-jin (1.345 trillion won, US\$1.304 billion), Heesung Group Chairman Koo Bong-neung (1.334 trillion won, US\$1.291 billion), and former Saenuri Party lawmaker Chung Mong-joon (1.333 trillion won, US\$1.290 billion).

## Only 10 Out of Top 35 Have Self-made Fortunes

The 10 with self-made fortunes include Buyoung Group Chairman Lee Jung-keun, whose personal assets reach 1.81 trillion won (US\$1.75 billion). Those next in line are NXC Chairman Kim Jung-joo (1.472 trillion won, US\$1.426 billion), largest shareholder and chairman of the board of directors of Naver Lee Hae-jin (1.346 trillion won, US\$1.304 billion), NC Soft President Kim Taek-jin (1.214 trillion won, US\$1.176 billion), Chairman of the board of directors of Kakao Kim Bum-soo (1.158 trillion won, US\$1.122 billion), NHN Entertainment Chairman Lee Jun-ho (1.035 trillion won, US\$1.003 billion), Mirae Asset Group Chairman Park Hyun-ju (1.264 trillion won, US\$1.225 billion), Kyowon Group Chairman Jang Pyong-soon (1.131 trillion won, US\$1.096 billion), Celltrion Chairman and CEO Seo Jung-jin (1.063 trillion won, US\$1.029 billion), and Atinum Partners Chairman Lee Min-ju (1.054 trillion won, US\$1.021 billion).

## All Richest Women from Conglomerates

Women account for 6.8 percent of the top 400. The 27 women are from chaebols, and every one without exception has their fortune through inheritance.

Shinsegae Group Chairwoman Lee Myung-hee, Leeum Samsung Museum Director Hong Ra-hee, Hotel Shilla Presi-



dent Lee Bu-jin (1.332 trillion won, US\$1.291 billion) and Cheil Industries President Lee Suh-hyun (1.274 trillion won, US\$1.234 billion) belong to the Samsung Group. Orion vice Chairwoman Lee Hwa-kyung (1.098 trillion won, US\$1.064 billion) is from the Tong Yang Group.

The other richest women in Korea include SK Group Chairman's younger sister Choi Ki-won (929 billion won, US\$899 million), LG Group Chairman's wife Kim Young-shik (488 billion won, US\$472 million), the Hyundai Motor Group Chairman's first daughter Chung Sung-i (424 billion won, US\$410 million), Lotte Group Chairman Shin Kyuk-ho's first daughter Shin Young-ja (393 billion won, US\$381 million) and Hankook Tire Chairman Jo Yang-rae's daughter Jo Hee-won (337 billion won, US\$326 million).


### Some Salaried Employees Also Joined the List

In the meantime, Yulsan Group founder and Central City Chairman Shin Seon-ho ranked 46th with assets of 772 billion won (US\$747 million), and Iljin Bearing Chairman Lee Sang-il

followed him with 718 billion won (US\$695 million).

Fila Korea Chairman Yun Yun-soo, who started as a salaried employee, took 74th place with 478 billion won (US\$463 million). Lee Hak-soo, former CEO and vice chairman of the Samsung Group, ranks 66th with 521 billion won (US\$505 million), Samsung Futures President Kim In-joo is at 158th with 276 billion won (US\$267 million), and former Samsung Electronics Vice Chairman Yoon Jong-yong is at 323rd with 188 billion won (US\$182 million).

SM Entertainment Chairman Lee Soo-man and YG Entertainment Chairman Yang Hyun-suk ranked 185th and 228th with 252 billion won (US\$244 million) and 221 billion won (US\$214 million), respectively.

The youngest of the 400 is Lee Min-kyu, Seoul Semiconductor chairman Lee Jung-hoon's daughter. She recorded 202 billion won (US\$196 million) and took 268th place at the age of 28 this year. The oldest ones are Lotte Group Chairman Shin Kyuk-ho (372 billion won, US\$360 million, 105th) and Sungbo Chemical Honorary Chair Yoon Jang-sup (188 billion won, US\$182 million, 323rd), both aged 92. 



Lee Kun-hee



Chung Mong-koo



Lee Jae-yong



Chung Eui-sun



Suh Kyung-bae



Chey Tae-won



Shin Chang-jae



Shin Dong-bin



Lee Jae-hyun



Shin Dong-joo

TOP  
10  
RICHEST  
KOREA  
2014





K-BEAUTY EXPO 2014

## K-Beauty to the World!

The sixth K-BEAUTY EXPO 2014, the largest comprehensive beauty expo in Korea, will be hosted at KINTEX located in Gyeonggi-do from October 30 to November 2. The newest information in beauty industry trends will be introduced, and a banquet of genuine beauty will be held.

This expo obtained a certification as an international exhibition from the Ministry of Trade, Industry and Energy for two consecutive years including last year, and became an official industrial fair specialized in the beauty businesses. In order to accelerate overseas expansion of beauty industry-related companies in Korea, this expo is being prepared even more thoroughly.

K-BEAUTY EXPO 2014, with the theme of 'K-Beauty to the World!,' will expand its exhibition focus to cosmetics, hair, nails, health, raw materials, packing, and special products. It will host the biggest beauty contest in Korea and design international conferences to project the globalization and futures of the K-Beauty industry, various stages, and other events.

A total of 500 booths are being prepared for this expo, and issued products will have a separate block to emphasize the specialties of each product. An exhibition of innovative products will be held, called K-BEAUTY 10, in which product testing and voting will be included. The aim is for expertise and diversity can be enhanced even more.

Furthermore, the expo will recruit Korean companies who are capable of exporting products, invite buyers who have purchasing power in emerging markets such as the Middle East and Southeast Asia through KOTRA overseas trading hall, and conduct a 1-to-1 export consulting session.

This will be a step forward compared to existing export consultations through business matching. This will enable Korean companies and potential buyers to exchange consulting data, meet the actual business demands of each other, and enhance the success rates of consultations. As small businesses have obtained meaningful results out of export consulting sessions so far, the performances of this year's export consulting deserve strong expectations.

In addition, business and public days will be designated, so that different events can be promoted for both industrial professionals and public visitors.

A trend hall where jewelry, aromas, inner beauty products, and food are exhibited will be created so that the wide spectrum of the beauty industry can be presented. The convergence possibility and vision of the Korean beauty industry will be shared.

### Features of the 2014 K-BEAUTY EXPO

The K-BEAUTY EXPO has become the number one B2B specialized exhibition of the Korean beauty industry, so this expo is becoming even more actively engaged in pioneering overseas expansion for the attending companies. The efficiency of on-site consulting sessions will be maximized through a prior exchange of information, the professionalism and diversity of exhibited products will be enhanced, and differentiated visions to lead the K-BEAUTY market will be presented by selecting innovative products centered on the recent issues in the beauty industry.

In order to design specialized events for business buyers and public visitors, Thursday and Friday are designated as business days in which to hold intensive professional events such as overseas export consulting sessions, entrance consultations for new brand distributors, and trend seminars. On Saturday and Sunday, brand experience oriented events are prepared in order to maximize the advertising effects of attending companies and the satisfaction of public visitors.

A collaboration special hall with K-FASHION will be launched as well, to provide new business opportunities through various collaborations of the beauty businesses.

## Overview of Other Events

**Export Consulting Sessions:** 1:1 export consulting sessions will be held by inviting big buyers from the Middle East, Southeast Asia, and South America to the KOTRA overseas trading hall. Korean buyers will be invited as well for new brand consultations, and entrance consultation meetings will also be held by inviting MDs from Korean distribution companies.

**Innovative Product Exhibition:** The most innovative and differentiated products of the attending companies will be selected and exhibited under the name of “K-BEAUTY 10 Innovative Products.”

**Beauty Talk Concert:** Panels from OnSyle and Get It Beauty will be invited, and a beauty talk seminar that addresses concerns related to beauty issues shall be solved by talking with beauty mentors.

**Seminars:** Seminars for overseas expansion strategies and online overseas marketing strategies will be held to assist small and medium-sized companies enter into overseas markets.

**Demonstration Program:** The makeup and hair styling of celebrities will be demonstrated.

**Collaboration Special Hall:** A special hall for collaboration of K-FASHION and K-BEAUTY will be prepared to be a total beauty paradise in both fashion and beauty.

## Performance of Last Year

Gyeonggi-do, which has been hosting the “Beauty Design Expo” every year since 2009, changed the name of expo to “K-BEAUTY EXPO” in 2013, and held the largest beauty expo in Korea with 520 companies and 810 booths at KINTEX, Ilsan from September 12 to 15 last year. The size grew more than five times compared to 2012.

Gyeonggi-do transformed “K-BEAUTY EXPO” into a comprehensive beauty expo merged with B2B-based beauty, tourism, healthcare, and medical cosmetics last year in order to nourish its beauty business as a major industry. The exposition had been targeting individual consumers before, but expanded its targets to other businesses as well. Participating industries also expanded from cosmetics and beauty to tourism, health care, plastic surgery, and medical care.

Accordingly, Gyeonggi-do increased the budget for this


expo 4.4 times to 1.98 billion won (US\$1.94 million) last year, compared to 450 million won (US\$441,855) in 2012. The size also expanded over 2.5 times to 32,157 m<sup>2</sup> as well.

Furthermore, 510 companies in 810 booths, five times more than 2012, participated in the expo in 2013. Products for the exhibition also covered a wide range of the overall beauty industry including not only hair, nails, and esthetics but also cosmetics, raw materials, packing, medical care for the obese, and plastic surgery, wellbeing, and health.

Especially at the K-BEAUTY EXPO 2013, participants from the beauty industry such as hair, nails, and makeup dominated, and big distribution companies joined as well, which makes the expo unique. At the Korean open market consulting session held during the expo period, many small and medium-sized companies participated in direct open market consultations with Home & Shopping, eBay, Alibaba, Taobao, Rakuten, and Amazon. Last year’s expo consisted of a cosmetics hall, hair hall, esthetics & nail hall, health & spa hall, and beauty industry hall for obesity & plastic surgery.

Gyeonggi-do also opened a beauty market hall so that visitors could purchase products at a low price. Beauty related products from LUSH, GK Nail, and GNC; handmade jewelry of art gallery artists; and interior products and cosmetics from Beauty Leshia and Chocolate Cosmetics were sold at reasonable prices.

Gyeonggi-do also formed an association and organization hall in which 44 major educational institutes, associations, and organizations participated in order to focus on performances and the future of beauty industry supporting organizations in Korea. There was also a “promising venture hall” to introduce the advanced technologies of Korean companies.

As a result, 40,000 people visited the expo and US\$13 million in contracts were created with 300 foreign buyers from 34 countries. 

## Overview of K-Beauty EXPO 2014

- **Title:** The Sixth K-BEAUTY EXPO 2014
- **Period:** 10:00 to 17:00, Oct 30(Thu) to Nov 2(Sun)
- **Venue:** KINTEX 1, Halls 4&5, Seminar Room
- **Host:** Gyeonggi-do
- **Organizer:** KINTEX, KOTRA
- **Media Partner:** OnStyle, Get It Beauty
- **Products Exhibited:** Cosmetics, Hair, Esthetics, Nail, Raw Materials, Packing, Fashion, etc.
- **Concurrent Events:**
  - \* 2014 Korea Beauty Festival hosted by the Korean Beautician Federation
  - \* The Tenth IBSC International Beauty Technique Contest hosted by Korea Beauty Vocational Education Institute
- **Size:** 600 Booths of 400 Attending Companies, 50,000 Visitors inside and outside Korea



# K-BEAUTY EXPO 2014

## Overview of Attending Companies

### Main Participants

#### HANSOL BIO [www.hansolbio.com](http://www.hansolbio.com)

Hansol Bio is a small hidden champion that realizes one's dreams and values through life science technologies. The company is well known overseas as a professional ODM and OEM company that develops differentiated dosage forms through natural materials and realizes the best products and quality. Since its establishment, the company has been focusing on developing and manufacturing cosmetics via a capsuling method of oriental and natural extracts, together with Gyeonggi Natural Products Research. The company has a number of high quality products such as cosmetics, skin care products, cleansing products based on enzyme cleansers, and body care products made with environmentally-friendly natural extracts. Its skin care products have strong skin adhesion developed through nano-combining all effective materials and porous power particles.



Hansol Bio's Ecopure Fermented Pomegranate Skin, effective for soothing skin

#### Firstmarket Co., Ltd. [www.kocostar.com](http://www.kocostar.com)

Firstmarket Co., Ltd. is a cosmetics manufacturing and export company that designs and manufactures Korean cosmetics and exports them worldwide. The company has a brand named KOCO-STAR which includes the concept from top to toe, and creates fun idea packs. Currently, nail essence packs, foot peeling packs, chest packs, V line chin packs, hand moisturizing packs, and fact spot mirror packs are available.



Firstmarket's SW Line Hydrogel Breast Pack, one of Kocostar's products

#### HAIRCOUTURE [www.haircuture.co.kr](http://www.haircuture.co.kr)

Haircuture is a professional company which creates and sells luxury fashion hair products in the U.S., the center of the hair related market. Haircuture has formed a strategic partnership in marketing, distribution, and sales with Girl's Generation, a major K-POP group in Korea, based on a business alliance with SM Entertainment. The company is preparing to expand its businesses overseas to other Asian markets.



K-Pop group SNSD's Yuna is trying on Haircuture's hair extension. Haircuture has a business alliance with SNSD's entertainment group, SM Entertainment

### Sub-participants

#### Cosmetics

##### WELCOS Co., LTD. [www.welcos.com](http://www.welcos.com)

Welcos, popular with environmentally-friendly prescriptions with natural ingredients and product designs, will enhance the stature of K-BEAUTY worldwide. Starting from a pure naturalism brand called Kwailnara launched in 1993, Welcos is very popular among beautiful people with different skin care products by skin type and body care makeup products. Welcos currently has 12 successful brands including an oriental brand called Hyoyeon and a total skin care brand called Touch Therapy.



Kwailnara Color Pop Hand Cream Special Set by Welcos

##### Apharm [www.apharm.co.kr](http://www.apharm.co.kr)

Apharm, the number one cosmetics company of the Korea Consumer Satisfaction Index in 2014, aims to become a "skin health research center," which returns skin to the healthiest possible. The company is currently concentrating on developing and manufacturing "cosmeceutical" products that integrate the strengths of cosmetics, medicine, and medical products. The company is producing honest cosmetics by utilizing safe and good ingredients so that anyone of any age, gender, or health status could use the products.



Dr. Nu ell Micell Scar, number one repurchased product from Apharm

##### Aro Cosmetic [www.arocosmetic.co.kr](http://www.arocosmetic.co.kr)

Since Aro Cosmetic first succeeded in localizing facial mask modeling by thorough R&D, the company has grown into the best Korean brand in the esthetic beauty industry and is expanding to overseas markets such as China, the U.S., Australia, Japan, and Hong Kong. Aro Cosmetics presents healthy products that deliver vital energy by normalizing skin functions with the golden ratio of functional cosmeceutical ingredients and natural plant extracts.

#### Hair

##### VODANA [www.vodana.co.kr](http://www.vodana.co.kr)

VODANA is a professional distribution and research company established in the U.S. as an overseas expansion strategy of



BSKOREA, which has been manufacturing beauty devices for past 20 years. VODANA has been very popular in the US and Europe with hair devices and products, and is an official sponsor of the 2012 and 2013 Miss Korea.



One of Vodana's hair devices

#### VOGUERS Co., LTD.

[www.voguers.com](http://www.voguers.com)

VOGUERS started as a hair clipper manufacturing company, and is now producing and supplying high quality competitive products. The company manufactures hair clippers with the most variety in Korea. Through intensive investment in R&D, the company developed a diamond carbon coated edge and obtained a patent for a multi-functional double-edged multi cut device. VOGUERS is occupying over 45 percent of the professional nail clipper market in Korea.



Voguers's hair clipper

#### KIRIN COSMETICS Co., LTD.

[www.kirincos.com](http://www.kirincos.com)

Kirin Cosmetics is a major exporting company, and broke 100 million sales of hair dye in the U.S. during its first three years from June 2002 when the company first started exporting hair dye products to the U.S. The brand power of Kirin Cosmetics is very strong in each continent, including the U.S., the Netherlands, Germany, Japan, and the Middle East. Notably, its one minute hair dye, registered for a patent in Korea and the U.S., is gaining popularity for its efficiency in speed and hair protection.



Kirin Cosmetic's hair color products

### Nail

#### KRC

KRC is a manufacturing and sales company specialized in nail care products. It produces gel nail polish, LED gel lamps, 3D complete gels, and 3D tube gels. The company is perfectly equipped with factories and automated production facilities to create OEMs and ODMs of relevant products. Through its own brand N.O.Q. (Nail of Queen), the company is speeding up to penetrate both domestic and overseas markets.

#### SEED CORPORATION

[www.seedcorp.co.kr](http://www.seedcorp.co.kr)

As a professional beauty sticker manufacturer, SEED Corporation develops, produces, and sells beauty stickers such

as nail wraps, nail decoration stickers, tattoos, and eyelid stickers. These "MADE IN KOREA" products, record 80 percent of its sales from exports.

### Body Shape Management

#### KJI INDUSTRIAL CO., LTD.

[www.kjit.kr](http://www.kjit.kr)

KJI is a small technological innovative venture company that manufactures rehydration patches under strict ISO criteria. These patches, which are registered as general pharmaceuticals with the FDA and obtained the European certification of CE, are exported all around the globe. Pure sap extracted from oak trees, bamboo, and lavender are packaged into patches, and this sap helps blood circulation, metabolism, and the removal of cellulite.



Seed Corporation manufactures and sells nail products



Rose Sap Patch, one of KJI's rehydration patches

#### CareCompany

[www.v1-vliner.com](http://www.v1-vliner.com)

With patented technology in Korea, CareCompany filed for an international application with its face line care device. Its major product, "V1," applies constant pressure to the face to make a balanced V line.



CareCompany's patented face line care device, V1

### Packing

#### JUNGMIN Co., Ltd.

[www.acospack.com](http://www.acospack.com)

Jungmin is a professional packaging company that supplies cosmetics containers to major cosmetics manufacturers including Amore Pacific and Johnson & Johnson Korea. Its annual revenues are US\$15 billion, with active exports to Germany, the U.S., and France. It manufactures compact, palette, pump, and power containers.




One of Jungmin's compact powder cases

### Inner Beauty Food

#### JAYEONHANA Co., Ltd.

[www.jayeonhana.com](http://www.jayeonhana.com)

Jayeonhana is a manufacturer of health foods which are produced with dietary fibers, grains, marine algae, food extracts, and natural minerals. These products induce active bowel movements so that body wastes and toxins are effectively discharged. 



Jangbium, Jayeonhana's bowel moving inducer

# Introduction of Exhibitions Hall

## Cosmetics Hall

- Basic, functional, makeup, organic and oriental cosmetics will be introduced.
- Considering that the makeup of Korean celebrities is a big interest worldwide, the superiority of Korean cosmetics and makeup demonstrations will be presented.

## Hair Hall

- Major hair companies will represent the Korean beauty industry, together with the 2014 Korea Beauty Festival hosted by the Korean Beautician Federation.
- Hair products, styling devices, and hair dye products will be exhibited. Various services for hair loss and scalp care, which is a great concern for people nowadays, will be demonstrated as well.

## Nail Hall

- The current status of the Korean nail industry, which leads the global nail business, will be presented.
- Information on innovative manicures, various types of nail art, and healthy hand and foot care will be available.

## Esthetics Hall

- Skin care services, semi-permanent makeup, and eyelash products will be presented.

## Body Shape Management Hall

- Body shape management services centered on body slimming devices such as meridian massage and lower body bathing devices will be exhibited.

## Raw Materials Hall

- Natural ingredients and high-quality functional materials, in which foreign buyers will be greatly interested, will be introduced.

## Packing Hall

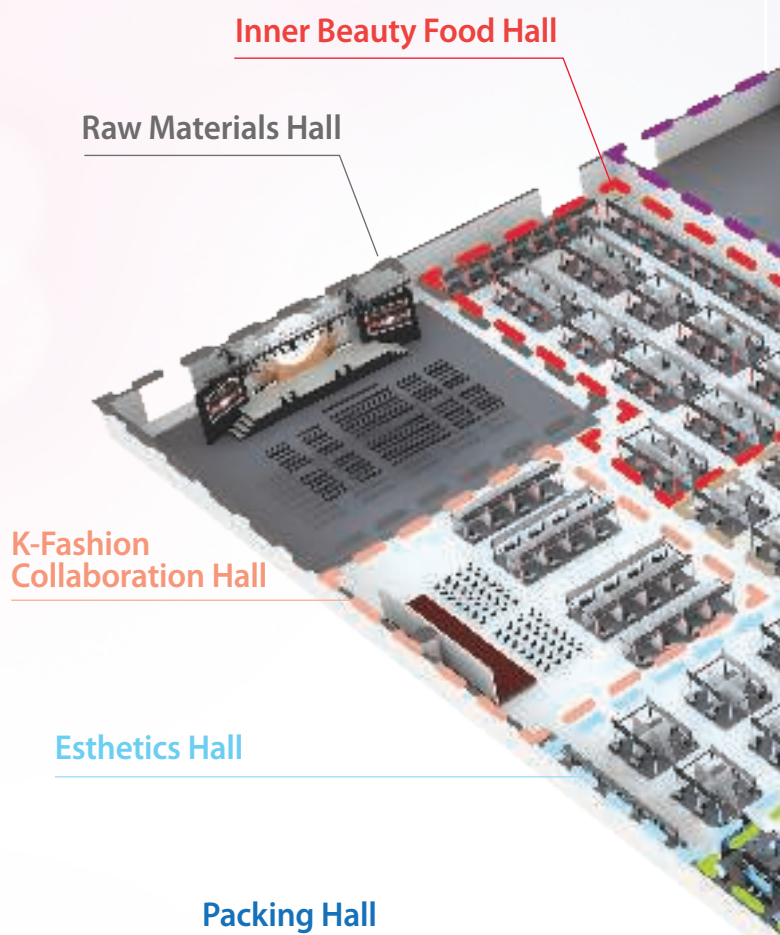
- Cosmetics containers and sub-materials.

## Inner Beauty Food Hall

- Various inner beauty food products to control inner beauty for outer beauty will be available. Detox and diet products will be exhibited.

## K-Fashion Collaboration Hall

- Trend hall of fashion designers, as a part of collaboration with the fashion industry, will be created to provide attractions spiced with pop arts.







Body Shape Management Hall

Hair Hall

Cosmetics Hall

Nail Hall





## Mobile Payment Market

# Limitless Competition Starts in Earnest for Mobile Payment Market

As Internet companies such as Kakao and Alibaba and telecommunication service providing companies are joining the mobile payment market in addition to commercial banks and credit card companies, a fierce war among players in the rapidly-growing mobile payment market is expected.

LG U+ announced in August the launch of Paynow+, a security and convenience enhanced successor its existing mobile payment service Paynow, and to officially start providing services.

On that day, LG U+ explained that Paynow+ has passed all security tests of the Financial Supervisory Service, from user verification to payment, for the very first time as a domestic payment service provider. LG U+ added that security has been greatly enhanced by enabling users to choose among a total of five verification methods: dementor graphics image combination, ARS, password, security pattern, and mobile One Time Password.

LG U+ has already secured 100,000 online member stores and plans to expand to over 150,000 members including major social commerce companies, open markets, and portals within this year.

As LG U+ jumped into the mobile payment service market for the first time as a telecommunication service providing company, intense competition among companies is expected.

Industry estimates the size of the mobile payment market in Korea at 12 trillion won (US\$11.7 billion).

Recently, various companies includ-



LG U+ representatives introduce its electronic payment service Paynow+ at Sejong Hall of the Sejong Center for the Performing Arts on August 13.

ing KG Inicis, Smart Wallet, and Kakao are fighting against one another very fiercely by introducing their own services competitively.

In the meantime, as foreign companies such as Alibaba and Paypal are also targeting the Korean mobile payment market, Korean companies are allying against foreign players.

LG U+ also emphasized that it wants to contain foreign companies along with Korean companies. LG U+ has created partnerships with Shinhan Card, BC Card, and Hana SK Card, and announced that it would add NH Nonghyup Card and KB Kookmin Card, and ultimately cooperate with all credit cards within this year.


Industry forecasts that more companies will join the competition as the government begins to allow simple payment services without Active X.

While new companies are actively entering the market, credit card companies which already established presences

in this market previously are in complex situations. They do not project that electronic payments based on mobile platforms will grow very fast.

Card companies, which started mobile payments businesses in 2010, have not yet reaped a good harvest. According to the card industry, mobile payments account for only 1 percent of the entire credit card transaction market, which is the size of 560 trillion won (US\$547 billion) annually.

A credit card company employee said that despite the proactive participation of Korean IT majors including Kakao and foreign payment gateway (PG) companies in mobile payments, their influences are hard to predict. This person also added that making existing users comfortable with simple payment platforms is the key to success.

On the other hand, as many companies are entering the simple payment market, there are concerns about security issues. 

## SNS-Banking Convergence

# Naver, SBI Securities Cooperate for Internet Banking Services



Naver is holding digital hands with SBI, the largest online financial company in Japan, to accelerate the convergence between finance and information technology. The evolution of social network banking is picking up speed in the form of Bank Wallet Kakao, which is a KakaoTalk messenger service available from next month allowing up to 100,000 won to be remitted a day, and the remittance service of the Naver Band messenger.

Under the circumstances, experts point out that Korean banks, insurers, and securities companies need to mull over new ways of overseas business with major SNS providers in Korea and Japan working together with leading Japanese financial companies to launch similar services soon.


Until now, commercial banks and financial firms have entered overseas markets by setting up their own offices, acquiring or merging with local firms, and establishing joint ventures with them. This type of market penetration has a positive aspect in that the scope of the target customers can be expanded to locals from companies in overseas businesses. Though, experts mention this analog way of doing business is waning.

The collaboration between Naver and SBI Securities implies that banking-IT convergence knows no limits. At present, financial companies are focusing on a functional combina-

tion in sales activities and product development. Products of banks, insurers, and securities firms are available via the same channels, and mobile technology is tearing down the boundary between them. The advent of SNS-based universal banking is around the corner.

The government is also hinting that the concept of an Internet bank will become real in the near future. In fact, such banks are already on a rapid growth track in the United States, Japan, and other advanced economies.

Specifically, in Japan, Internet banks have recorded an average annual growth rate of 32 percent since 2000 based on the active participation by major IT companies and banks. One of the examples is Rakuten Bank. Established in 2001, it has total assets of 1.105 trillion yen (US\$10.77 billion) and posted a net profit of 7.4 billion yen (US\$72 million) last year. Rakuten is a leading electronic payment service provider.

American Internet banks, likewise, have grown by 19 percent on yearly average since 2000, and their total assets amounted to US\$458.2 billion at the end of March this year. Their profitability has improved, too. They accounted for 5.3 percent of the total operating profits of all American commercial banks in 2013. The examples include Charles Schwab Bank, E\*Trade Bank, and Ally Bank. 





## Fall of Venture Myth

# Pantech, Forerunner of First Venture Generation, Filing for Court Receivership

**P**antech is under court receivership after suffering from serious financial difficulties due to an inability to succeed in the smartphone market.

Pantech announced at a board meeting held in the morning of August 12 that they decided to go under legal management in order to reorganize the company and stabilize management, and filed for court receivership at Seoul Central District Court.

As Pantech filed for receivership, the Court will decide whether or not to accept the request after assessing the corporate value of Pantech. According to the due diligence of its creditors, the going concern value of Pantech is higher than the liquidation value, which means that the court will probably accept the receivership request.


Once the receivership is confirmed,

the Court will determine a legal administrator for Pantech. Since this situation has not been caused by the failings of corporate executives, the current management executives, including CEO Lee Joon-woo, are likely to be appointed as legal administrators.

Afterwards, Pantech, under the control of its legal administrators, needs to submit plans for corporate rehabilitation to the court within two months, which is contingent upon the court's approval.

Once the court receivership is effective, all commercial credits are exempted, which will seriously hurt the subcontractors of Pantech that already supplied components but have not yet received payments. There are 550 subcontractors of Pantech, and the majority of them are small businesses which could be forced to go bankrupt in turn.

Pantech was established in 1991 by former Vice Chairman Park Byung-yeop, who used to work as a salesman at Maxon Korea, with six employees and 40 million won (US\$38,926) in capital. Pantech acquired Hyundai Curitel and SK Teletech afterwards, and its success has been called the "legend of a salary man." However, Pantech went through a first workout due to financial difficulties from 2007 to 2011, and the second workout after March this year.

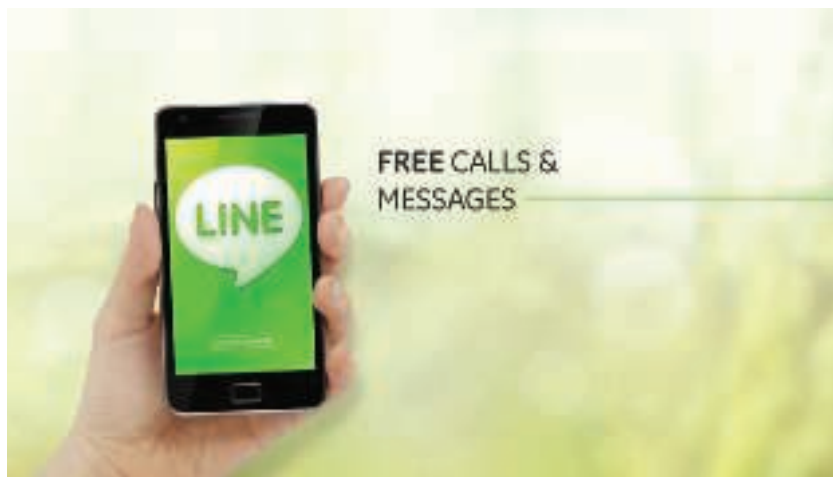
As Pantech will be under legal management, the triangular competition structure with Samsung and LG in the smartphone manufacturing industry will inevitably change. Especially if Pantech, which possess highly-advanced technologies, is sold to a Chinese or Indian company, critical technologies could be leaked. 





## Alliance for Global Dominance

# Naver Line Negotiates Investments with Softbank, Alibaba



Korea's number one portal Naver is in negotiations for investments and strategic partnership with Softbank of Japan and Alibaba Group of China. An executive at Naver said, "As Softbank and Alibaba showed their interest in investing in or forming a strategic partnership with Line, a mobile messaging company, we are currently under negotiations."

Line is a 100 percent subsidiary of Naver, and currently has 480 million users. Softbank and Alibaba hope to acquire 30 percent of its shares each. If negotiations are concluded successfully, an alliance of major IT companies from Korea, China, and Japan will start to target the global mobile market.

Line is one of the top three mobile messengers in the world, competing with WhatsApp of Facebook and WeChat of Tencent. The greatest strength of Line is its fast growth. Lee Hae-jin, an executive of Naver, said at the press conference celebrating 300 million Line users in Japan in November last year, "2014 goal is to break 500 million users."

Line is growing at an unexpected speed. On average there are 830,000

new users per day, and the total number of users exceeded 400 million on April 1. If this trend goes on, users will far exceed 500 million at the end of this year, perhaps even reaching 600 million. The corporate value of Line is surging accordingly. Lee Chang-young, a researcher at Tongyang Securities, said, "Currently, the corporate value of Line is 23 trillion won. This could become 28.5 trillion won, if Line is listed." Twenty-three trillion won is roughly equal to US\$22 billion.

Line has a serious concern, though. It is the number one mobile messenger in Asian countries such as Japan, Indonesia, Taiwan, and Thailand. The problem is that Line cannot beat Facebook's WhatsApp of in the U.S. or of Tencent's WeChat in China, the world's two biggest markets.

But if Naver allies with Softbank and Alibaba, it might be possible to buck the trend and jump into the U.S. and China.

Softbank, the biggest IT company in Japan led by Korean Japanese Chairman Son Jung-eui, is famous for aggressive investment and M&As. Softbank acquired Sprint, the third largest


telecommunication service provider in the US, last year, and already agreed to acquire T-Mobile, the fourth in the U.S. Softbank proposed to invest in Line's equity, as they believed that Line could be a very important partner to penetrate the U.S. market.

Two companies could radically increase Line users if Line (as an operating program) is pre-installed on smartphones sold by Sprint and T-Mobile.

The Alibaba Group could be a key business partner in the Chinese market. Alibaba is operating B2B commercial sites Alibaba.com, online shopping mall Taobao, and electronic payment service Alipay. The product transaction amounts to consumers were 254 trillion won (US\$246 billion) last year, accounting for 4/5ths of the total amount.

Alibaba also desperately needs a competitive mobile service other than electronic transactions. The company's major competitor, Tencent, has WeChat, so Alibaba needs Line as a partner in Asia.

Softbank and Alibaba, both hoping to invest in Line, are actually sister companies. Son Jung-eui, Chairman of Softbank, is the largest shareholder of Alibaba, after he invested US\$20 million (approximately 20.5 billion won) in the company back in 2000 when it was a venture company, and acquired 34.4 percent of its shares. When Alibaba is listed in the US stock market early next month, the value of Softbank's shares will jump to US\$57.8 billion (approximately 59 trillion won).

Softbank and Alibaba, with enough money, desire to acquire as much of Line's equity as possible. However, Naver rather wants to form strategic partnerships and transfer equity less. Due to these reasons, negotiations are dragging on. 



## Android OS Lawsuit

# Microsoft Dumping Smartphone OS Patent Offensives on Samsung, LG

Concerns that Nokia will attack Korean handset makers as a Non-Practicing Entity (NPE), or patent troll, are about to become a reality. As the Korea Fair Trade Commission (FTC) is examining the effects of the merger between Nokia and Microsoft, its results are drawing a lot of attention.

"As far as I know, Nokia has recently been demanding that Samsung and LG Electronics pay a large amount of patent fees," remarked a source familiar with intellectual property rights in Korea on July 27. An official at Samsung Electronics echoed the same sentiments by saying, "Nokia demanded a large sum of patent royalties. So, we are now negotiating with the company in the US."

Many predicted that that Nokia would turn itself into an NPE when the Finnish smartphone maker sold its handset unit to Microsoft. The Redmond-based software company decided to acquire Nokia's mobile phone business for US\$7.2 billion in September of last year. At that time, Microsoft let the Finnish firm have and use its patents related to smartphones over the next 10 years. Due to the M&A deal, Nokia can freely exercise its patent rights without manufacturing mobile phones.

In fact, the mobile phone industry has raised concerns that Nokia would be transformed into a NPE. Usually handset makers reduced the burden of patent fees by signing broad cross-licensing deals. However, since the Finland-based firm no longer manufactures cell phones, it can only demand payment for its patents.

Most of Nokia's patents are standard-essential patents (SEPs), and thus it is said to be difficult to avoid Nokia's demand. As a result, local companies are adopting a strategy that lowers patent fees as much as possible through nego-

tiations rather than lawsuits. A Samsung associate explained, "Nokia's patents are difficult to avoid, since most of them are utility patents or SEPs."

In the meantime, Microsoft brought a lawsuit against Samsung to the United States

District Court for the Southern District of New York on August 1 (local time), saying, "Samsung Electronics violated the patent licensing deal signed three years ago, which was related to Android OS." Microsoft's lawsuit has caused alarm among Android phone manufacturers. In particular, Microsoft's move is expected to interfere with Google's strategy that strengthened its dominance in the smartphone market by improving the performance of its open-source operating system (OS).

The software giant raised two issues. First, Microsoft asked the court to decide whether or not its acquisition of Nokia's phone business invalidates the 2011 agreement between the two companies for Samsung's use of Microsoft's intellectual property. Next, the software company contended that the Korean tech giant should pay interest for the delay in royalty payments last year. Even though Samsung made the royalty payments later, Microsoft is demanding interest on the late payments.


Experts are saying that Microsoft's patent lawsuit can be interpreted as its intention to check Samsung's influence and get an enormous amount of royalties.

Android device makers are nervous at the possible fallout of the lawsuit.



Google has been increasing its dominance in the worldwide smartphone market using its open-source strategy that provides its Android OS free of charge, aside from some fees for certification. However, if Microsoft continues to collect patent fees in the form of royalty payments, Google's position in the market is likely to weaken considerably. Moreover, if the software firm strictly applies its patent rights while expanding its influence in the smartphone market, as in the case of Microsoft's buy-out of Nokia, the company will be able to expand its reach to other Android handset manufacturers. If that happens, Microsoft is more likely to become a Non-Practicing Entity (NPE), or a patent troll.

Over the past few years, the software company has signed a license agreement with 20 firms that produce devices equipped with the Android OS or Chrome OS, charging licensing fees.

Meanwhile, much attention is being paid to whether or not Microsoft's move will affect the decision by the Korea Fair Trade Commission to approve Microsoft's purchase of Nokia. The local electronics industry expressed concern to the country's anti-trust regulator over Microsoft's apparent misuse of patent rights. 



## Apple vs. Samsung

# Did Apple, Samsung Really Find Common Ground in Patent Infringement Lawsuit?



Samsung Electronics and Apple reached an agreement to withdraw their patent lawsuits occurring outside the U.S. on August 6. As a result, much attention is being paid to whether their decision will lead to a final agreement, or it will be part of their strategy to concentrate on the case in the U.S.

This is the first time for both sides to reach any compromise, four years and four months after Apple lodged a complaint with the U.S. District Court against Samsung in April 2011. However, the U.S. firm announced on the same day that it decided to continue to pursue legal action in the U.S.

The patent war between the two tech giants intensified between 2011 and 2012, as shown by the fact that they brought suits against each other in 9 countries. After that, both companies continued existing cases for two years, without bringing new legal actions against each other.

In June, the two companies dropped their appeal of last year's final ITC ruling. At the end of July, Apple withdrew a cross-appeal in its first California case against Samsung. Hence, observers said that both sides might reach an agreement.

In fact, many in the industry pointed out that they will finally make a compromise, since the lawsuits between the

two firms involve products released one or two years ago, and therefore winning the case would not bring any practical benefit.

Moreover, the possibility that confidential information about each country will be revealed through court documents imposed a big burden for the two firms. On top of that, legal fees were too expensive.

The lawsuit made consumers, including the jury who deliberated the case, form negative attitudes toward the two companies in that an increasing number of people began to think that at the end of the day, the victims were the consumers. Apparently, this general public perception had an impact on Samsung and Apple's decisions this time.

However, some say that the decision is not the final agreement, because it does not include their lawsuit in the U.S. Even if one side wins a lawsuit outside of the U.S., the company will not benefit greatly by winning the case. Therefore, industry analysts are saying that both of them dropped their case in other countries so that they can focus on the ongoing patent infringement trial in the U.S.

The size of the case in the U.S. is the largest. In the first patent lawsuit, the United States District Court for the Northern District of California ruled that Samsung pay US\$930 million in dam-

ages for patent infringement.

Even if the two companies withdraw their cases in other countries to concentrate on the lawsuit in the U.S., the patent dispute might escalate, rather than being compromised. Both companies are expected to further use their capabilities in a cross-appeal of the first California case and a second patent infringement lawsuit.

Some say that the two handset makers reached an agreement, owing to the remarkable growth of Chinese smartphone vendors in the global market, where market conditions have been changing very rapidly.

Huawei, Lenovo, and Xiaomi Tech, the three largest smartphone makers in China, have been rapidly growing to the extent that they comprised 17 percent of the worldwide smartphone market in the second quarter of this year. In contrast, Samsung and Apple's combined share amounted to merely 37.1 percent of the total. It means that both companies are slowly losing their grip on the market.

Nevertheless, given that the rapid growth of Chinese Android device manufacturers is based on the local market, industry analysts stress that Chinese firms' growth alone cannot fully explain why Samsung and Apple agreed to drop their case outside the U.S. <sup>8K</sup>





## Neck-and-neck Race

# Naver, Kakao Competitively Expanding O2O Frontier



Kakao will launch “Yellow ID,” a marketing service for small and medium businesses, from August 20. This is a direct challenge against Naver, which is already dominating the market through search advertisements.

The war between Naver, a major Korean Internet company, and Kakao does not end here. Fierce competition in the Online to Offline (O2O) area, including mobile wire transfers, electronic transactions, news and marketing platforms, are inevitable.

According to the industry on August 11, Naver and Kakao will launch various new services to break the borders between online and offline, and compete with each other intensely.

First of all, Kakao plans to expand marketing outlets for small and medium sized businesses primarily dependent on portal search advertisements like Naver so far. Kakao has been operating demonstration services of “Biz Profile,” the predecessor of Yellow ID. Currently, over 1,300 businesses are registered for the service.

The brutal war between Kakao and Naver has also expanded electronic transactions through mobile platforms.

Naver recently introduced “Band Fashion,” a shopping service at acquaintance-based social networking service Band. Band Fashion provides product lists classified by gender and category at the additional view functions inside Band. Users can directly purchase certain products if they touch the images they like.


Furthermore, Naver has optimized its shopping environment for mobile by exposing intellectual shopping images instead of links at the result pages when users search for products at the mobile web and applications. For example, if the keyword “dress” is searched for, product images are intuitively shown instead of exposing the addresses of shopping mall websites, which is what the PC-based web does.

Kakao is enhancing electronic transaction services through KakaoTalk gifts and purchases. Currently, Kakao is offering two major services, mobile coupons and actual product deliveries. Kakao is operating café, bakery, restaurant, and movie services, and also luxury shops with products that cost more than 1 million won (US\$973). As of July, the number of accumulated products for

gifts was 130,000, and the number of accumulated brands was over 2,000.

Competition is the fiercest in the expansion of mobile wire transfers and payment businesses. Naver will start small amount remittance services by adding “Yellow Pay,” a payment service based on a mobile phone number, onto Band within this month at the earliest. A “1/N Calculator” function that enables group members to divide membership fees equally will be integrated with a payment button in order for remittances through virtual accounts to be possible. Kakao is also putting together its own version of mobile payment services called “Bank Wallet Kakao” and “Kakao Quick Payment” next month.

In addition, Kakao is considering daily life platform services such as “Kakao Taxi,” and Naver is also preparing new services. Kakao will penetrate the news content market as well, which is currently under Naver’s dominance.

An industry professional said, “As Kakao and Naver are competitively expanding their businesses, traditional offline industries are threatened. However, this trend will continue for the competition with global IT companies.” 

## Messenger Service Expansion

# Mobile Messengers Expanding Their Dominant Platforms into Games, Financial Services



As domestic and foreign mobile messenger companies are expanding platform businesses, their “superpower” status might become even stronger.

Major global mobile messenger companies such as Line, Kakaotalk, Whatsapp, and WeChat are expanding their businesses into mobile platform areas other than games including financial services and commerce (electronic transactions), and this is creating tension in the industry. Especially in Korea, as the new businesses of Kakao will start in the second quarter, the industry is focusing on whether or not Kakao’s superiority in mobile games could continue in other markets as well.

According to the industry on August 10, Kakao will start financial services with 15 commercial banks through its “Bank Wallet Kakao” service next month, and launch another service, “Kakao Quick Payment,” which enables users to purchase things at online shopping malls without public certification procedures. Kakao is also considering various other services including an agreement with taxi drivers.

Line, which has almost 500 million

users now, is concentrating on the content platform businesses. During the second half of this year, Naver will enter into many new countries for platform services such as games, Line Mall and webtoons, and promote various marketing activities so that Line users could have access to a lot of new content. Following KakaoTalk, Line is also considering to start a small amount of payment services through Naver Band. There is the “1/N Calculator” function, which enables group members to divide membership fee equally in Band, and Camp-Mobile plans to expand this service so that wire transfers can be done immediately without any additional service charges.

As Kakaotalk and Band, which have 3.7 million and 3.3 users in Korea respectively, will launch small amount remittance services during the second half of this year, competition in financial services will become very fierce in the mobile messenger market.

The problem is that platform business expansion of these messengers that is based on high user loyalty could negatively influence other companies.

With KakaoTalk especially, 97.4 percent of people who installed Kakaotalk are actually using it. Considering the entire population of Korea as 50 million, more than 35.6 million people, over 70% of the whole population, are loyal users of Kakao-talk.

Based on this exclusive status in Korea, Kakao is charging its users excessively for game platform services, and might monopolize the domestic mobile platform market by taking advantage of its market share in the mobile messenger industry.

On the other hand, Tencent, a major Chinese IT company, is also expanding games and financial services through its mobile messenger WeChat. WeChat has more than 600 million users worldwide, and is currently operating TenPay in which WeChat users can connect their bank accounts to their WeChat accounts, together with game platforms.

In case of WeChat game platforms, their five major games already exceeded 570 million downloads last year, which means that each game scored an average of 110 million downloads. This is 20 million higher than Anipang and Dragon Flight, which were mega hits through Kakao Game in Korea.

On the contrary, Whatapp, which has the most users in the world, did not enter into the platform businesses yet. However, as Facebook acquired Whatapp last February, Facebook’s ambitious plan to expand financial services and electronic transactions could be effectively integrated with Whatsapp’s market share. EK

## Korea Electric Power Corporation

# KEPCO to Move ICT System Facilities to Naju Integrated ICT Center



Bird's-eye view of Naju Integrated ICT Center of KEPCO

The Korea Electric Power Corporation (KEPCO) held an official starting ceremony to move its ICT facilities from its headquarters in Samsung-dong, Seoul to Naju Integrated ICT Center on July 21.

KEPCO will transfer its 1,200 ICT system devices, the largest number out of any public organization, via several trips of non-vibrating vehicles, in order to move them safely to Naju City, South Jeolla Province.

There are three phases to this relocation. First, old facilities will be replaced and integrated. Second, a new network and information security system will be set up at Naju Integrated ICT Center. And finally, the ICT database will be moved to the new facility.

KEPCO will first complete a thorough due diligence on the facilities to be transferred by August. Then it will simulate the procedure more than three times for each phase by mid-September. The plan is to prevent any potential system errors that could happen upon the movement of the system.

Relocation of the major facilities will be completed from September to late October, and a perfect working environment is expected to be ready by November.

For last 30 years, the Power ICT Center, the center for power supply information systems connecting 290 branches nationwide, has been operated in the KEPCO headquarters located

in Samsung-dong, Seoul. The facilities have actually been broken into two separate buildings: a communication center in the main building and an electronic center in an annex. As the headquarters moves to Naju Innovation City, the Power ICT Center will simultaneously be upgraded into the Integrated ICT Center for the unified management of electronic and communication facilities, which triggered this migration.

The Integrated ICT Center at the Naju headquarters is under construction in a four-story building to comply with the Uptime Tier-III standard, an international standard for safety and quality, most characterized by being created in a vibrationally-isolated structure that is immune to earthquakes. The construction is expected to be finished in late August.

Members of the "ICT Naju Relocation No Suspension T/F," consisting of the best employees in the ICT fields of the headquarters and consortium members of three private professional companies, attended the starting ceremony. They discussed strategies for avoiding accidents, service suspension, and timely relocation, and pledged to achieve these goals.

KEPCO will provide administrative support to 20,000 employees and a 24-hour ICT service environment to power users nationwide through these meticulous migration strategies, includ-


ing operating during the weekends and at night.

On the other hand, KEPCO hosted a meeting to draw coexisting cooperation plans with ICT-related industries and create communicative environments at the auditorium of its headquarters in Kangnam-gu, Seoul on May 28. There it presented bidding system improvement strategies in the ICT industry and ICT business plans for this year.

On that day, KEPCO introduced cases for bidding system improvement in the ICT field, and requested plans for major ICT businesses. KEPCO also had discussions with attendees about drawing up coexisting cooperation plans with ICT-related industries.

Furthermore, KEPCO will start policies to favor small and medium-sized companies when it orders software development businesses. When a big corporation does not form a consortium with small and medium-sized companies for sole bidding, the points for coexisting cooperation in a technical evaluation will become 0. This is a part of KEPCO's plans to encourage consortiums with big corporations and small companies.

In addition, KEPCO will make sure that the quality test (BMT) of OA devices is professional, objective, and fair. It will do this by outsourcing the test to an external assessment company such as the Telecommunication Technology Association, provide equal opportunities for bidding by expanding prior notification candidates before ordering business, and ultimately induce fair competition.

KEPCO plans to create coexisting cooperation circumstances with ICT industries by operating an ICT customer service center constantly, and promoting a demand forecast in ICT businesses of small and medium-sized companies for three years in the future. 



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- 문열고 냉방 자제
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- 전등 끄기

## Alliance with Apple

# LG Display to Supply Flexible OLED Displays for iPhone 6, iW



The prototype design of the iWatch, revealed by Todd Hamilton.

**L**G Display is expected to greatly increase total shipments of flexible OLED displays this year, thanks to the launch of Apple's iWatch.

According to market research firm DisplaySearch, LG Display is likely to supply more than 120 million flexible OLED panels for the iWatch to Apple this year, assuming that the yield rate reaches 65 percent. In light of last year's situation where there were just a few sales of small and mid-sized Flexible OLEDs, the number of supplies for this year is a sharp increase.

As Apple is expected to showcase its iWatch as early as September, LG Display, which hasn't yet been able to distinguish itself in the small and mid-sized OLED market, is also likely to intensify efforts to increase its market share through flexible OLED panels.

Experts in the industry and the stock market have different opinions about the sales volume of the iWatch in the future, but many observers say that around 4 million units will be sold per month. Morgan Stanley predicts that the new smartwatch will sell as many as 600 million units in the first year of its release.

Last year, Samsung Display, the supplier of AMOLED panels for the Galaxy S series and Galaxy Note series, accounted for 99 percent of the small and mid-sized OLED market. LG Display seems to be determined to launch a large-scale offensive to increase its market share, helped by the introduction of the iWatch this year. Conditions to target the market have apparently been met, since LG Electronics, a major customer company of LG Display, is also gearing up to unveil a new smartphone with a built-in flexible OLED screen in the latter half of this year.

As a result, LG Display is enlarging its production lines to produce flexible OLED displays. The company is enlarging the 4.5-gen production lines to make small and mid-sized flexible OLED panels in Paju, Gyeonggi Province, and it is currently considering whether or not to install new lines in Gumi, North Gyeongsang Province.

The industry anticipates that the flexible OLED market will


grow rapidly, since Apple will penetrate the smartwatch market soon. DisplaySearch expects that the market, valued at US\$370 billion last year, will annually grow by 151 percent on average to reach US\$23.4 billion in 2020.

An industry source said, "LG Display, which has been lagging far behind its competitor in the small and mid-sized OLED market, is likely to greatly increase its share, owing to its supply of flexible OLED panels for the iWatch to Apple." The source added, "The competition between Samsung and Apple in the smartwatch market would turn the flexible OLED market into a battle between Samsung and LG Display."

Meanwhile, US-based IT news site MacRumors reported on August 19 (local time) that LG Display will become the main supplier of display panels for the iPhone 6, which is also scheduled to be introduced in September. Sources were quoted in the report as saying that LG Display emerged as the largest supplier, beating Samsung, Sharp, and Japan Display.

According to industry sources, the iPhone 6 is going to be rolled out in 4.7 and 5.5 inch versions. LG Display, Japan Display, and Taiwanese company Innolux will mass produce 4.7 inch displays, but only LG Display and Japan Display will supply displays for the 5.5 inch model, which is likely to be released under the name of the iPhone 6L.

In particular, sapphire crystal displays are expected to be used in some of the 5.5 inch models. An industry source confirmed that by saying, "New technologies like sapphire crystal displays will be used in the 5.5-inch version, and the model is expected to be produced by LG Display and Japan Display."

However, it is unclear how much LG Display will be in charge of the total supplies of the iPhone 6. Industry analysts are saying that Apple will produce up to 100 million units by the end of this year, and thus suppliers of the new handset are expected to become major beneficiaries. In particular, LG Display is predicted to improve performance, because 4.7 inch displays are 38 percent as large as existing 4 inch panels, and 5.5 inch displays are larger by 89 percent. 



Samsung Electronics is planning to invest 14.4 trillion won in semiconductor and 5 trillion won in displays.

### Samsung's Investment Plan

# Samsung Electronics to Invest 24 Trillion Won in Semiconductor, Display Businesses

Samsung Electronics, which is struggling owing to the limits of the smartphone market, is trying to overcome the crisis by heavily investing in B2B businesses such as semiconductors and displays. In particular, the company is planning to increase profits in the semiconductor business using market-leading products like 14 nm FinFETs, application processors, and 3D V-NAND flash memory chips.

"Our company is going to make a 24 trillion won of investment this year, similar to last year. We are planning to invest 14.4 trillion won in semiconductor and 5 trillion won in displays," said a Samsung associate in the July 31 Conference Call on 2014 Second Quarter Results. The official added that the firm plans to improve business development capabilities by strengthening its leadership in technology mainly with the components business.

In the semiconductor area Samsung is going to invest in the production process of semiconductor chips and the infrastructure of V-NAND flash memory chips. It will also invest in its System LSI division to exchange the existing manufacturing process for a cutting-edge one. In terms of the display field, the company is planning to supplement and enlarge the current OLED line.

The tech giant explained that the semiconductor memory market achieved double-digit growth in Q2, and the market will continue to grow. Hence, the firm established a strategy to have an increase in sales that exceeds the growth rate of the


market.

On top of that, Samsung is aiming to sharpen its competitiveness in the market through strategic products such as 14 nm FinFETs.

Related to this issue, Baek Ji-ho, Director of Samsung Electronics' Device Solution memory business, said, "14 nm FinFETs are scheduled to be mass-produced late this year, and we have been obtaining customer companies in a smooth way." He added that the company's sales are expected to come from the Exynos AP in the first quarter of next year, and the foundry market in the latter half.

In addition, S3, a new semiconductor line, is mainly going to produce DRAM, but the company is planning to respond to market conditions in a flexible way. As for 14 nm FinFETs, Samsung is going to secure profitability using the existing line.

Meanwhile, the company showed reservations about the expansion of dividends, since it is necessary to secure money for its investment in future growth engines.

Lee Myung-jin, who is in charge of investor relations, remarked, "It is not easy to decide on increasing dividends, since there are a lot of opportunity factors, such as wearable devices and the possible growth of the production process of 14-nm FinFETs." He concluded by saying, "We ask shareholders to wait for some more time until dividends increase, because we believe that in the mid-long term, our continued growth will benefit them." 



## SSD Competition

# Toshiba Counterattacking Samsung's SAD SSD with 3-Bit SSD



Samsung Electronics started mass production of high capacity 800GB Solid State Drives (SSDs) based on the Serial Attached SCSI (SAS) interface.

SAS is a high-tech interface that is capable of producing SSDs twice as fast as the Serial ATA (SATA) connections primarily used for hard drives in PCs. The industry projects that the SAS SSD market will expand to challenge the current SATA SSD market.

According to the industry on August 7, Samsung Electronics is currently manufacturing a distribution type 800 GB "SM1623" SSD to meet global demand for a high quality SAS SSD. Together with the premium SAS SSD "SM1625" in sizes of 100 GB, 200 GB, 400 GB, and 800 GB, Samsung Electronics now has a full line-up of next-gen SSDs.

Distribution type SAS SSDs mass produced by Samsung Electronics use general NAND Flash, but have equivalent performance and credibility to premium SAS SSDs based on expensive enterprise NAND Flash.

Especially, distribution-type SAS SSDs currently under production enhance productivity more than 30 per-

cent with 10 nm size general NAND Flash, compared to SSDs built with 20 nm size enterprise NAND Flash.

In the meantime, Toshiba has started to catch up with Samsung by introducing a 3-bit Solid State Drive (SSD). This is a little behind Samsung Electronics time-wise, but experts are expecting to see a fast technological appliance based on accumulated expertise, since NAND Flash originated in Japan.


According to the industry on August 7, Toshiba released a TLC-based SSD in which 3-bit information can be written in one cell at the 2014 Flash Memory Summit, which is the largest exhibition related to flash memory in the world. Accordingly, Toshiba has become the second company to apply TLC in SSDs worldwide.

The semiconductor industry has been skeptical about SSD products based on TLC so far, because these products, in spite of low production costs, have a shorter life span and lower stability compared to those using Multi Level Cells (MLCs). However, the situation rapidly changed once Samsung Electronics started to increase the sales of SSD products equipped with TLC.

Another important variable is that performances of TLC-based SSDs have been improved to a similar level as MLC. An industry professional explained, "With TLC NAND products, countermeasures such as controller improvement and SLC buffers are used in order to overcome the limit. However, as controller technology is advanced, TLC structure could capture better stability than MLC."

The greatest reason is price. The price of SSDs is sharply dropping these days to compete, so existing NAND prices and MLC structure has lower price competitiveness. Particularly from the second quarter when Samsung Electronics and Micron Technology were lowering their high-quality SSD prices, minor companies who sell budget SSD products were in fact forced to sell SSDs at clearance prices.

Toshiba is chasing very fast. As of the first quarter, 60 percent of the entire NAND production of Samsung Electronics were TLC based, but Toshiba scored 25 percent. Only three years ago, the TLC NAND production portion in Toshiba was higher than Samsung Electronics. For the third quarter of 2011, TLC NAND portion of Toshiba was 44 percent, more than double that of Samsung Electronics.

SK Hynix, which just entered the SSD market recently, is also putting their best efforts to develop TLC and 3D NAND Flash. SK Hynix is planning to complete development of TLC and 3D NAND by the third quarter this year, and deliver sample products to their clients. If this plan goes well it will be only one quarter behind Toshiba and two years behind Samsung Electronics. Toshiba and Micron will be able to start the mass production of 3D NAND next year. 



## Semiconductor Chicken

# Will Samsung Electronics Play Semiconductor Chicken for a 3rd Time?

The global memory semiconductor market, which has been restructured into an oligopoly through two games of chicken, might break down. Samsung Electronics, currently going through difficulties in the smartphone business, might attempt to improve profitability by appropriating its market dominating power as in the past.

If Samsung Electronics starts cutthroat competition, a major upheaval is inevitable in the memory semiconductor market, which is currently under an oligopoly. In the memory market, only four companies – Samsung Electronics, Toshiba, SK Hynix, and Micron – make NAND Flash memory.

According to the related industries on August 18, Samsung Electronics' operating profit portion of the global memory semiconductor industry was 55.1 percent last year, a 38.1 percent point drop from 98.2 in 2012.

The fact that Samsung Electronics' market share decreased so much shows that the profitability of other competitors has improved. For the last few years, the memory semiconductor market has been restructured to be supplier-oriented, as some companies fell behind the competition or were acquired by other companies due to oversupply. Accordingly, product prices have stabilized, and major memory manufacturers have scored big operating profits.

The problem is that the games of chicken started all over again once Samsung Electronics' portion of the total operating profits in memory semiconductor industry dropped. In 2006, the first time, Samsung Electronics recorded 56.1 percent market share. When the fierce competition happened again in 2010,


Samsung Electronics' portion was 59.9 percent.

Samsung Electronics is likely to pull the chicken game card again, especially as a change in process refinement, a major technological innovation in memory semiconductor manufacturing, is expected. Samsung Electronics released 3D NAND Flash last year, and announced its mass production of 20 nm 4GB DDR3 this year.

In the semiconductor industry, product prices can easily drop due to oversupply when a market leading company starts mass production through technology development. By the decisions of pioneering companies, second movers are easily left behind.

An industry professional said, "Process refinement is not limited to performance improvement through new products, but to cost minimization in all products in existing lines as well as production maximization. This could greatly enhance cost competitiveness."


Market followers, of course, are trying to come up with various strategies to avoid being helplessly hurt in these market wars, which can happen any time. First of all, they are dispersing their risks by diversifying products and clients. They are also securing sufficient cash through financial restructuring in order to survive through times of cutthroat competition.

Sk Hynix is expanding businesses with Chinese set companies based on mobile D-RAM. Toshiba and Micron are leading the Solid State Drive (SSD) market. These companies are very good at creating cash flow by managing their product portfolios. 



**Overwhelming Competition**

# Top Five Industries in Korea Drowning in Sea of Chinese Oversupply



Equipment industries require a lot of infrastructure investment.

The export performances of the top five export industries are radically worsening due to the appreciation of the Korean won and oversupply from China. Hyundai Heavy Industries reported its historically worst loss due to low order prices, and the smartphone sales of Samsung Electronics decreased for the first time. The golden days of Samsung Electronics' smartphone businesses, which have been leading the Korean IT industry for the last three to four months, might have passed.

Professionals point out two major reasons for the sluggish sales of Samsung Electronics' smartphones. First, Chinese manufacturers are rising. Samsung Electronics has been dominating the market based on its advanced technologies, but the high-end product market is stagnant. On the contrary, in the low-end market, Chinese companies including Xiaomi, Lenovo, Huawei, and ZTE are aggressively challenging Korean companies. The market shares of Xiaomi in China, the so-called "Apple of China," is 21 percent, right behind Samsung (23 percent). A foreign consulting associate said, "As smartphone manufacturing technologies become widely available, Chinese companies are more capable of manufacturing quality products, and their price competitiveness beats Korea."

The second reason is a lack of innovation. Market research company IDC picked competition with the Galaxy S4 and Galaxy S3 as the main reason for the poor sales of the Galaxy S5 during the second quarter. In other words, there are no innovative changes in the Galaxy S5 to differentiate itself from its predecessors. The problem is that the doldrums of Samsung

smartphones lead to doldrums of component manufacturing affiliates such as Samsung Display (display devices), Samsung SDI (batteries), and Samsung Electro-Mechanics (cameras and boards). In fact, the operating profits of Samsung Electro-Mechanics during the second quarter of this year dropped by 90.5 percent compared to the same period last year.

Heavy industries such as automobiles, shipbuilding, steel, and petrochemicals are directly hurt by the declining exchange rate and Chinese oversupply. Especially, the petrochemical and steel industries have structural vulnerabilities against oversupply from China. Since they do not have original technologies to overpower competitors, they are easily overtaken by Chinese companies, which are aggressively expanding their production facilities based on overwhelming capital and huge market size.

The refining industry was the number one export industry in 2012, but its recession started from the second quarter last year. Oil-producing countries including China and Saudi Arabia are building crude oil refining plants and putting pressure on Korean companies. In the petrochemical industries as well, the operating ratio of some plants dropped to 70 percent as Chinese companies are expanding their production facilities.

Professionals point out that Korean companies specialized in "equipment industries" based on large infrastructure investments need to change quality-wise. Equipment industries have been suffering from structural oversupply since the global financial crisis of 2008, and it is very easy for followers to chase if they have sufficient capital power. <sup>OK</sup>



## Proven Expertise

# GM Korea to Manufacture New Chevrolet in Korea where Defect Rate Is Low



GM Korea's Gunsan plant.

The global competitiveness of GM Korea seems to be regaining credibility as illustrated by the decision to manufacture subsequent models of the Chevrolet Cruze, first introduced at the Beijing Motor Show last April, at GM Korea's Gunsan factory.

General Motors Company of the U.S., manufacturer of Chevrolet Cruze, previously eliminated Korea when deciding on its manufacturing base for following models of 2012 Chevrolet Cruze. However, this situation has completely changed, as GM Korea proposed its labor union to produce the following models of the Chevrolet Cruze at its Gunsan factory, a totally unexpected development. The automobile industry is trying to figure out why global automaker GM changed its mind on such a major issue.

This probably shows that GM has been deeply worried about the recent recalls of tens of millions of vehicles because of critical quality defects. GM recalled 30 million cars due to automo-

bile device defects during the first half, and CEO Mary T. Barra was summoned to congressional hearings. Furthermore, an additional 414,000 vehicles were recalled due to troubles in seat height adjusting bolts, and another 124,000 vehicles were recalled due to troubles in seat loops on July 25.


All told, GM had to pay US\$2.5 billion to cover recall costs, and will have to afford even more. Under the current circumstances, GM headquarters had to examine the quality controls of all manufacturing facilities in 160 locations worldwide. GM's headquarters might have chosen the Korean factory again because of low defect rates. According to GM Korea, only 1 percent of all recalled vehicles in North America were from the Korean factory.

GM Korea expects more production allocation afterwards, if they successfully manufacture the new Chevrolet Cruze. In fact, before GM decided to withdraw the Chevrolet Europe brand, one quarter of all Chevrolet production

was on GM Korea.

The new Chevrolet Cruze production plan at the Gunsan factory played a very important role in ordinary wage negotiations. This became a casting vote while the company and labor union were in sharp conflicts regarding when to apply expanded ordinary wages. GM headquarters were concerned about unexpected variables such as strikes when they considered Korea as the major candidate for new Cruze production. This is why GM Korea moved so decisively to prevent strikes, even proposing to expand ordinary wages to the labor union for the first time in the industry.

GM Korea currently has final automobile manufacturing facilities in Bupyeong, Gunsan, and Changwon, and a transmission producing facility in Boryeong, Chungnam. Looking at the maximum production throughout a year, 390,000 vehicles are from Bupyeong, 240,000 from Gunsan, and 200,000 from Changwon. Gunsan factory has been manufacturing the Chevrolet Cruze and Orlando. Considering that the total exports from GM Korea were 630,000 vehicles, Gunsan factory is currently below full operation. The increase of production allocation is very good news in many ways.

A GM Korea employee said, "We do not know if we could have more production allocations afterwards, but this new Chevrolet Cruze production allocation is very encouraging to us. Since we have reached a mutual agreement on sensitive issues such as ordinary wages between the management and labor union, the only thing left for us to do is enhance product quality." 

## PTA Oversupply

# PTA Suffers Serious Recession Due to China's Competitive Expansion



Korean PTA manufacturers do not have room to grow as China is self-sufficient in PTA these days.

The chemical fiber industry is suffering from an oversupply of Purified Terephthalic Acid (PTA). PTA is a middle material produced from Para Xylene (PX) and is a feedstock of synthetic fibers, Polyethylene Terephthalate (PET) bottles, and film.

The market is in serious recession, as there is sluggish demand for polyester, a synthetic fiber, and Chinese companies to which Korean companies used to supply PTA are expanding their manufacturing facilities.

According to Hyosung on August 2, operating profits in the chemical sectors during the second quarter were 29.6 billion won (US\$28.7 million), a 35 percent decline from the same period last year. The chemical sectors of Hyosung consist of three business areas, polypropylene (PP) & dehydrogenated (DH) products, PTA and packaging, and due to the worsened profitability of PTA during the second quarter, lowered all sales revenues and operating profits.

A Hyosung employee explained, "Even though PP & DH and the packaging businesses had better profitability during the second quarter due to increasing demand, PTA had constantly low sales and sales prices. This is largely because of the low demand of polyester and oversupply."

Related industries expect other PTA companies to score low during the second quarter as well. Especially as China is self-sufficient in PTA these days, Korean companies do not have room to grow.

China is planning to expand to 1.94 million tons of PTA production this year, following last year's 6.85 million tons. An additional 3.4 million tons will be expanded next year, reaching

12.19 million tons of expansion for three years total. This is more than double the initial shortage amount. Korean companies have been supplying this deficiency, but they cannot any longer due to oversupply in China.

In Korea, Samsung General Chemicals has the biggest manufacturing volume of 2 million tons. Samnam Petrochemical (1.8 million tons) of Samyang Corporation family, Lotte Chemical (1.05 million tons), Taekwang Industrial (1 million tons), and Hyosong (420,000 tons) are following. Among all, Lotte Chemical and Hyosung are in relatively better positions. As Lotte Chemical has a PET plant, and Hyosung could consume their own products through manufacturing PET and polyester, these two companies have little room to breathe.

On the contrary, companies without internal demand have to either shut down their plants or explore new options. SK Petrochemical, a subsidiary of SK Global Chemical, actually shut down their 52,000 ton size PTA plant in Ulsan petrochemical complex early last month. SK Petrochemical is now considering whether to restart the plant or sell it off. Related industries are acknowledging this as a shutdown. As the oversupply in China following the immense expansion of Chinese companies will continue by 2020, SK Petrochemical might have exited.

Samsung General Chemicals and Taekwang Industrial are trying to diversify sales outlets to destinations other than China. A Samsung General Chemicals employee said, "We are expanding sales outlets to the Middle East and Europe, since exports to China decreased. We are reacting with flexibility to adjust to market conditions."



## Global Materials Center

# Korea Emerges as Center for Environmentally-friendly, Light Materials



Ultrason, a high-performance thermoplastic produced in Yeosu, Korea by BASF. Ultrason is used in the thin hollow fibers of membranes for water purification systems or in visors for firefighter's helmets.

Korea is becoming a global center for environment-friendly materials. The country has many global electronics and automobile companies, and has made Free Trade Agreements (FTAs) with many large markets including the U.S. and Europe, which leads to benefits in tariffs. This is very attractive to both domestic and overseas chemical companies.

According to the industry on August 13, Toray of Japan, the world's 20th largest chemical company, announced that it will substantially increase Korea businesses at Project Ap-G 2016, a three-year medium-term management task revealed recently.

Among many related projects, Toray plans to raise sales of Green Innovation to 10 trillion won (US\$9.7 billion) by 2020 from the 5.915 trillion won (US\$5.777 billion) of last year. Water treatment as well as environmentally-friendly and light plastics are included in Green Innovation, and most of those production lines are established in Korea.

There are more investments of global companies as well. The world's top chemical company, BASF, built and opened a production plant to produce 6,000 tons per annum of Ultrason, a highly functional thermoplastic, in Yeosu early this year. BASF will open an R&D center for electronic materials at Suwon next month. Sabic of Saudi Arabia, the world's number five company in the chemical industry, also built an R&D center at Sungkyunkwan University. Belgian chemical company Solvay also established an R&D center for electronics and automobile-related materials with Ewha Womans University as well.

Korean companies are also enhancing environmentally-

friendly and light materials-related businesses. Samsung combined Samsung SDI, a market leader in secondary batteries for automobiles, and Cheil Industries, a leading material company in the Group, in order to target the market of environmentally-friendly and light automobile materials. LG is also trying to improve market competitiveness though LC Chem and LG Hausys.

SK Innovation is developing "Green Coal" technology, in which carbon monoxide is used to manufacture chemical products, and "GreenPol" technology, in which carbon dioxide is used to manufacture polymers as feedstock for plastics. Another affiliate company, SK Chemicals, is promoting various environmentally-friendly material businesses including "prepreg," an intermediate process stage of carbon fibers, environmentally-friendly plastics, and bio-degraded plastics.

Hanwha changed the name of its affiliate company Hanwha L&C to Hanwha Advanced Materials, and is investing in the mass production of light plastics with the capital raised through the selloff of its construction materials business.

An industry expert said, "Korea, where cooperation with Samsung Electronics and Hyundai Motors is possible and tariffs are lowered thanks to the FTA, is the best place for chemical companies. If a production facility is built in mainland China, the world's biggest market, the investment equity portion will be limited, and a risk of technology leakage exists. However, there is no such risk in Korea, and distribution costs are saved as well. Korea is a more advantageous place than China." ■





**100 Billion Venture Club**

# 454 Venture Firms Turned Over 100 Billion Won Last Year, on Average 18 Years after Founding

The number of venture businesses that recorded sales of 100 billion won (US\$97 million) last year is seven times as high as the figure for 2003. Those startup ventures are widely acknowledged to have improved their profitability and created jobs with aggressive investment in research and development (R&D) and their willingness to penetrate overseas markets. However, the number of new venture firms that turned over 100 billion won in 2013 did not increase much. Therefore, measures to foster venture businesses are urgently needed.

According to an analysis by the Small and Medium Business Administration (SMBA) and the Korea Venture Business Association (KOVA) on July 21, the number of startup ventures that surpassed 100 billion won in sales last year was 454, up 56 companies from a year ago. The number is a 6.7-fold increase from the 2004 figure. Those firms have operated for 21.7 years on average, and it took 16.8 years on average to achieve more than 100 billion won in sales.

The number of venture businesses

that posted sales of 100 billion won increased from 68 in 2004 to 454 in 2013, and the figure for new entrants surged to record highs in 2007 with 59 firms, accounting for 39 percent of the total. After that, however, the number dropped each year, and the figure only represented 12 percent of the total last year.

Sales of those venture firms rose by 8.2 percent, far higher than the 0.6 percent of large businesses or 4.6 percent of small and medium-sized enterprises (SMEs). Their operating profit margin was higher than other business types. The rate of their return on sales was 6.9 percent on average, higher than 4.2 percent of SMEs, and 4.6 percent of large companies. The number of employees working at those venture businesses grew 3.1 percent to reach 166,000 people in 2013, exceeding the figure for small and medium-sized manufacturing companies (a 1.4 percent year-on-year increase), or large corporations (a 2.1 percent year-on-year gain).

The SMBA attributed the reason for the fact that start-up enterprises grow very rapidly and create many jobs

to technological innovations through their continued investment in R&D and efforts to secure researchers, along with their strategy to enter the global market.

In fact, the proportion of R&D to sales for those venture firms was 2.7 percent on average, more than twice as high as the figure for SMEs (0.7 percent), or large companies (1.2 percent).

There is a big difference in exports as well. 78.2 percent of venture businesses with sales of 100 billion won reported 58.7 billion won (US\$57.3 million) in exports, which made up 25.9 percent of the total sales. The ratio is higher than the number for large corporations (17.4 percent) or SMEs (14.0 percent).

Han Jung-hwa, head of the SMBA, explained, "The growth of venture firms that achieved 100 billion won in sales is largely attributable to technological innovation and overseas expansion." He concluded by saying, "It is necessary for us to strengthen our support for technologically innovative companies to become venture firms in that category and to make full-scale expansion into overseas markets." 

## Patent Lawsuit Strategy

# Why do Global Companies File Patent Lawsuits against Korean Firms?

Global companies are continually trying to check Korean firms' influence. It shows that the Korean industry has grown in stature, but experts point out that local companies should come up with preparatory measures, since foreign companies' moves might put a damper on the management activities of local companies.

According to industry sources on July 22, SK Hynix was given one copy of the complaint filed by Toshiba and Sandisk. Last March, the two Japanese firms brought a lawsuit against SK Hynix to the Tokyo District Court for violating the Prevention of Unfair Competition Act as a result of technology leakage. They alleged that a worker at Sandisk leaked technology about NAND flash memory chips to SK Hynix.

At that time, Toshiba and Sandisk demanded that the Korean chip maker pay damages worth 1.1113 trillion won (US\$1.0800 billion), and that the company be banned from selling NAND flash memory. The amount is similar to SK Hynix's quarterly operating profits.

Previously, the Korean memory chip manufacturer was embroiled in patent disputes with US-based Rambus for 13 years. But those disputes were settled in the end, as they decided to sign a 5-year comprehensive cross-licensing agreement worth 272 billion won (US\$264.4 million) this year. A series of lawsuits against the world's second-largest maker of memory chips can be interpreted to reflect that rival companies feel threatened by SK Hynix's growth.

According to market research firm IHS iSuppli, Samsung Electronics accounted for 37.4 percent of the global NAND flash memory market in the first quarter of this year, which put the company in the top spot. Toshiba



The Korea Fair Trade Commission is planning to come up with measures to regulate Non-Practicing Entities (NPEs) within the year.

occupied the runner-up position with a 31.9 percent share, followed by Micron (20.1 percent) and SK Hynix (10.6 percent). Thanks to strong sales of DRAM, SK Hynix outperformed Toshiba in the global semiconductor market and nabbed the sixth spot in rankings. The Korean firm reported a 42.8 percent year-on-year increase in sales in Q1 2014.


SK Hynix is not the only Korean company being dragged into a lawsuit. In addition to the patent infringement lawsuit between Apple and Samsung, there are three more ongoing legal cases: a legal action brought by DuPont against Kolon Industries for revealing confidential business information on aramid fiber, a lawsuit filed by Nippon Steel & Sumitomo Metal Corporation against Korean steel giant POSCO for leaking technology related to manufacturing high functional steel plates, and a patent infringement case brought by Celgard against LG Chem. According to the United States Patent and Trademark Office, US companies filed 100 lawsuits against Korean firms as of March 2013. Among these, 43 cases were against Samsung, 31 cases against LG, 11 against Pantech, 7 against SK Hynix, and 6 against Hyundai Motor.

However, it is too early to talk about

the contraction of the local industry caused by global companies' actions. The United States Court of Appeals for the Federal Circuit overturned the first court ruling against Kolon Industries. The Federal Circuit ruled that since DuPont's technology to make aramid fiber was already made public through previous lawsuits, the technique is no longer regarded as confidential business information.

Even with unsuccessful cases, global enterprises continue to bring legal action against Korean companies, so that local firms reach an agreement stemming from financial burdens like legal costs. Foreign companies are also aiming at a reduction in investment made by local firms because of worries about losing lawsuits.

As a result, local companies have been taking aggressive steps to deal with the problem. Samsung established Intellectual Keystone Technology as an enterprise specialized in buying patents. Last year, Samsung and SK Hynix reached a comprehensive cross-licensing agreement to respond to patent disputes.

At the governmental level, the Korea Fair Trade Commission is planning to come up with measures to regulate Non-Practicing Entities (NPEs) within the year. 

## Obesity Treatment

# Childhood Obesity Can Be Solved with BT, ICT



The problem of obesity of children and teenagers in Korea is going beyond a personal matter and has emerged as a social issue. A Korean research team is addressing the issue by developing an open-source platform through the convergence of biotechnology (BT) with information and communications technology (ICT).

A project team in charge of developing a method aimed at solving social issues from the Catholic University of Korea unveiled SeeMe5, an open source platform designed to tackle child and teenage obesity in the 2nd international symposium. The event titled, “Your obesity and sustainable innovation of health IT platform,” was held in Seoul St. Mary’s Hospital on Aug. 1.

Funded by Korea’s Ministry of Science, ICT and Future Planning (MSIP), under the project to develop a technology that solves social problems, SeeMe5 has gathered information on obesity-related programs that have not been able to produce any result, since several gov-

ernment agencies have been working on them.

This platform contains various kinds of content associated with obesity, such as the medical records of the doctor’s diagnosis, data on physical fitness tests at school, and a physical exam at a public health clinic. In addition, information about food intake collected through smartphone apps and measurement instruments, data on the amount of physical activity, and data on exercise and education about diet and nutrition is included as well.

By opening up this information in the form of an open application programming interface (API), medical institutions or companies that develop obesity-related services or products can participate in the platform.

The team anticipates that as more information is accumulated in the platform, an algorithm that can manage obesity in a more effective way is going to be developed.

An already-developed service

enables people to register daily exercise and dietary information so that they can accomplish their goals. It also sends questions that continually check users’ health via push notifications. In this way, the service utilizes collected information and recommends suitable food from a database of 4,000 dishes provided by the Ministry of Food and Drug Safety and the Rural Development Administration. It also recommends some of over 300 exercise videos. This content is managed by healthcare experts in five areas, such as living environment, mind, physical activity, diet and nutrition, and health. Those five categories represent the 5 in SeeMe5.

Yoon Gun-ho, the head of the project team, said, “We will try hard to create synergy by connecting various programs related to preventing obesity with our open platform.” He added, “Since the government and our university are cooperating to develop the platform, I think that it will be a trusted service with public and academic characteristics.” **OK**





## Material Nanostructuring

# Korean Research Team Develops Tech to Duplicate Nanostructure in Paper, Cloth

A Korean research team has successfully developed a method to replicate a nanostructure on the surface of different types of materials including paper, plastic, glass, metal, or cloth. Therefore, the technique is expected to change the appearance of rectangular-shaped displays and electronic devices.

A research team led by Dr. Lee Seok-jae from the National NanoFab Center announced on August 18 that they developed a technique to copy a nanostructure onto the surface of many different materials using a silicon substrate.

Nanostructures cannot be seen with the naked eye, but they can do a lot.

For example, they can scatter light or accelerate chemical reactions. Hence, they have been studied in many different fields. However, it has been difficult to attach them to other materials because of the characteristics of the surfaces between the material that forms the nanostructure and the possible substrate.


However, the research team was able to overcome this limit by making a silicon mold with the nanostructure and spreading a layer of high polymers that can react to ultraviolet rays. They succeeded in making a nanostructure on the surface of various substrates by attaching a variety of materials, including paper, film, glass, metal, and cloth to the



Korean schoolchildren participate in an obesity awareness event.

top of these high polymers, and examining it under ultraviolet rays.

Since a nanostructure can be attached to the surface of any material, it is expected to be usable in next-gen displays, wearable devices, and biosensors.

The research findings were first published online on August 6 by Advanced Materials, a weekly scientific journal covering materials science. 

## Defense Robots

# Cutting Edge National Defense Robots to be Developed with Korean Software

As global weapon systems become unmanned, Korea is also embarking upon developing robots for national defense.

This roadmap will include medium and long-term strategies to create world-class national defense robots with application of national defense software developed in Korea.

The Defense Acquisition Program Administration (DAPA) announced on August 12 that it will complete development plans for national defense robots by the end of this year, and initiate development processes early next year. DAPA plans to form a National Defense Unmanned Robot Development Committee with professionals in weapon development and policies from private and military organizations. The committee will be responsible for establishing strategies and building a National Defense Robot Center for practical development processes.

Through this plan, Korea will aim to follow the current global weapon system trend to go unmanned. In fact, the U.S., Israel, Germany, Japan, and China are developing drones and unmanned tanks led by the governments' national defense robot projects.


Robots of the Korean military force are relatively weak compared to industrial robots, although unmanned monitoring systems are built into some front line units and robots for explosive ordnance disposal have been developed. Worse, the budget for national defense robots is one third of other advanced countries including the U.S., and the robots only have 80 percent of the technological capabilities of robots of other countries.

DAPA targets to secure ground, maritime and aerial unmanned weapon system and figure out the relevant action plans within this year. In short, DAPA will set up unmanned weapon system



Korean schoolchildren participate in an obesity awareness event.

applicable for the army, navy and air force, including unmanned automobiles, tanks, planes and vessels. Development businesses will be kicked in late this year by the earliest, once strategies are out, and will be completed by 2020.

DAPA will also establish strategies for standardization, modularization, exports, and localization of national defense robots. Especially, DAPA will actively utilize domestic technologies in the software area, which is critical for national defense robots. DAPA aims to realize localization in national defense software by developing key software to operate millions of sensors, and control the system with Korean technologies and existing Korean products. 



## Core Material for MRIs

# Next-gen Superconducting Wire Developed Using Carbon Nanotubes



A typical Philips MRI machine. (Photo by Jan Ainali via Wikimedia Commons)

A new process to radically enhance next-generation magnesium diboride (MgB<sub>2</sub>) superconducting wire materials, which is the essence of diagnostic medical devices such as magnetic resonance imaging (MRI) has been developed by a Korean research team.

Korea Basic Science Institute announced on August 13 that the research team of Dr. Choi Sae-yong and Kim Sung-joon at Busan Center, through international joint research with a research team led by Professor Kim Jung-ho at the University of Wollongong, developed a new process to greatly enhance the electric, mechanic, and thermal stability of superconducting wire materials by adding carbon nanotubes to MgB<sub>2</sub>.

The joint research team succeeded in developing next-generation MgB<sub>2</sub> superconducting wire materials through combining MgB<sub>2</sub> feedstock power with carbon nanotubes, instead of carbon materials previously used to improve the mechanical and thermal characteristics of the superconducting wire materials.

The next-generation MgB<sub>2</sub> superconducting wire materials developed this time are immediately applicable to superconducting appliances including MRIs, and are effective in maximizing energy saving efficiency, as superconducting activities appear only at the low temperatures creating using a cooling system.

Especially these days, the supply of liquid helium, which is primarily used as a refrigerant for superconducting devices such as MRIs, is very volatile. Accordingly, multinational companies leading the medical image equipment market are considering applying MgB<sub>2</sub> superconducting wire materials to manufacturing MRIs, which makes this research result very significant.

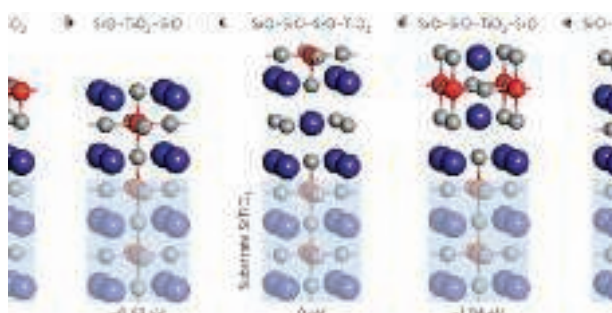
Dr. Choi Sae-yong said, "It means a lot to find the possibility to develop next generation MgB<sub>2</sub> superconducting wire materials with enhanced electrical, mechanical, and thermal performance through the simple process of adding carbon nanotubes. With follow-up research, we expect to figure

out how to apply this newly discovered superconducting wire material to 1.5T level MRIs, which is operated at under 15K operating temperature through a cooling system without a liquid refrigerant."

This research result was published at Scripta Materialia online, the most prestigious magazine in metal materials. <sup>08</sup>

## Futuristic Material

# New Material Developed Using Atomic Layer-manipulating Tech



Energetics for different layer sequencing during growth.

A Korean research team has successfully synthesized a new material that can be used in the development of materials in the energy area such as fuel cells, thermal conductors, and superconductors.

The Korea Atomic Energy Research Institute (KAERI) announced on August 18 that a Korean research team led by Lee Joon-hyeok, a senior researcher at KAERI, and a U.S. counterpart was able to improve a method for molecular beam deposition that makes nanometer-scale film by stacking up atomic layers one by one. The team also succeeded in synthesizing thin films made of layers of monocrystal lanthanum nickel oxides (Lan+1NiO<sub>3n+1</sub> oxides).

Since lanthanum nickel oxides have excellent ion conductivity and can respond to catalysts very well, they are actively studied as a material in the energy field like an electrode or a catalyst. In the past, it was difficult to conduct pure research on their characteristics and develop a new material by synthesizing them with other kinds of thin films, because the arrangement of existing polycrystalline lanthanum nickel oxides was irregular. Moreover, the bigger the size, the less regular the material.


The joint research team observed in real-time the process where atomic layers of the oxides were piled up, using Oxide Molecular Beam Epitaxy (Oxide MBE) installed in the Advanced Photon Source (APS) Synchrotron at Argonne National Laboratory. During the process, the team discovered the phenomenon of voluntary rearrangement between layers,



which means that the order of some atomic layers was not fixed, but reversed instead.

By applying this phenomenon, the team manipulated the order that atomic layers of lanthanum oxides and nickel oxides were piled up, and was able to synthesize thin films made of layered compound-type monocrystal lanthanum nickel oxides as a result.

KAERI is planning to apply the research findings in the development of new materials, such as a change in layer-structure materials and the measurement of material properties, using a neutron reflectometer in the Cold Neutron Research Facility (CNRF).

The research findings were first published online on August 3 by Nature Materials, a scientific journal published by the Nature Publishing Group. 

## Dream Material

# Transfer Tech Developed to Accelerate Graphene Commercialization

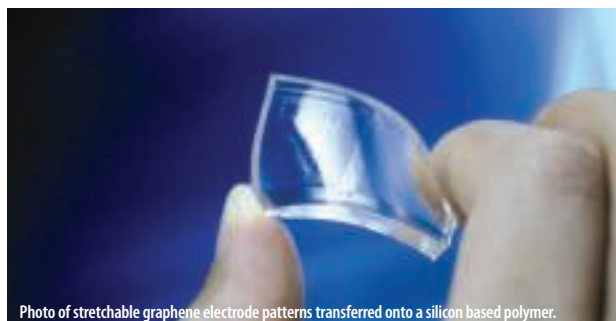



Photo of stretchable graphene electrode patterns transferred onto a silicon based polymer.

Korea University mechanical engineering Professor Han Chang-soo, the Korea Advanced Institute of Science and Technology (KAIST), and the Korea Institute of Machine and Materials developed a technology for transferring graphene formed on a metallic substrate directly onto another desired substrate without any damage or additional treatments.

Graphene is a film with the thickness that can be a single carbon atom. Its electrical conductivity is over 100 times that of copper, and its elasticity is more than 200 times that of steel.

In general, high-quality graphene of at least several centimeters has to be synthesized using a chemical vapor deposition (CVD) method. Then it has to be transferred onto a desired substrate in order to produce a graphene-based product. During the process, the graphene should be coated with a thin polymer layer, and a metallic plate should be melted so that it is not folded or torn. This process requires a lot of time and money. The process has also been vulnerable to impurities and damage, which has hindered the commercialization of graphene.

However, the research team developed a new method. This

new method starts off with the graphene on a metallic plate. Then, using heat, an electric field, and mechanical pressure, the graphene is attached to a new substrate with strong adhesive force. The graphene is then simply pulled away from the metallic substrate mechanically. This new method takes a lot less time and cost, and also reduces the possibility for impurities to damage the graphene. 

## New Biomaterial

# New Tech Developed to Produce Plastic Materials Using Bacteria




A Korean research team has successfully developed a method to manufacture plastic materials with bacteria. Much attention is being paid to whether or not the method will lead to the replacement of plastic products made from petrochemicals with biochemical products.

On August 5, a research team led by Dr. Woo Han-min from the Korea Institute of Science and Technology and Sim Sang-joon, a professor from Korea University, announced that they developed a technique to directly produce succinic acid from microalgae using genetically-modified bacteria. As a core precursor to bio-chemical materials, succinic acid can be utilized in plastic, coating materials, synthetic plasticizers, urethane, and solvents through additional chemical reactions.

The newly-developed bacteria are an improved version of *Corynebacterium glutamicum*, which is utilized in the production of amino acids and hexane. It is possible to produce highly-efficient succinic acid by directly making amylase. The team anticipates that their method is expected to be commercialized easily, since succinic acid has been used in existing industries, including the food industry.

Dr. Woo said, "This study was aimed at developing a technique to make next-gen sustainable bio-chemical products that can respond to the depletion of fossil fuels and climate change."

The research findings were first published online on July 24 by Scientific Reports, an online open access scientific journal published by the Nature Publishing Group. 





## Doors Wide Open

# Casinos, Tourist Hotels, Medical Corporations Opened for Service Industry Promotion



The government is going to support the construction of four integrated resorts including casinos in Yeongjongdo and Jeju Island by relaxing regulations.

Deputy Prime Minister and Minister of Strategy and Finance Choi Kyung-hwan unveiled his third policy package for the stimulation of domestic consumption on August 12. “The common goal of the policy measures is joint growth of the service sectors and domestic demand, while reducing the dependence on the manufacturing industry and exports,” he said.

His first policy package was announced in late July for housing market deregulation, and the second one for boosting the household income through tax reform came out on August 6. The most recent one revolves around the growth of seven service industry segments: healthcare, medical, tourism, education, finance, transport logistics, and software.

President Park Geun-hye deliberated on and fixed 135 specific measures that day at the 6th Trade and Investment Promotion Meeting. The policy tasks constitute one pillar of her three-year plan for economic reform. The Ministry of Strategy and Finance is expecting that the new policy package will lead to the creation of approximately 180,000 jobs and an investment of 15 trillion won (US\$14.5 billion).

Most of the 135 action items are characterized by frugal-

ity and scheduled to be underway by means of the attraction of private companies and local finance instead of a central government budget. This is to allow for fiscal sustainability. “The government budget will rarely be used with investment attracted mostly through deregulation,” the ministry explained.

One of the focuses of the policy lies in inbound Chinese tourists, reaching about four million in number, and Chinese investment funds. The government is going to support the construction of four integrated resorts in Yeongjongdo and Jeju Island by relaxing regulations, and resume the construction of an international theme park in the Songsan Green City located in Hwaseong, Gyeonggi Province. In total, 11.6 trillion won of new investment is expected from the development of the tourist complexes.

At the same time, the government and Seoul City came up with a master plan for the development of the Han River region and its vicinity by the first half of next year in order to shore up tourism infrastructure. Luxury cruise ships will be put into operation as on the Seine and Thames rivers, while the river ecosystem will recover and cafeteria streets are made along it.

8K

## Crisis of Healthcare Industry

# Korean Healthcare Industry Stuck in a Rut

The domestic healthcare industry, which is estimated to reach 5 trillion won (US\$4.9 billion) in size next year according to the Electronics and Telecommunications Research Institute, is drawing much attention, as the trend of convergence between information technology, biotechnology, and medical technology is spreading around the world. Unfortunately though, the healthcare business of local information and communication technology (ICT) companies such as SK Telecom, KT, Samsung Electronics, and LG Electronics is at a crisis, as the legal and social systems are failing to catch up with the progress of the trends.

One of the typical examples is Health Connect, which was jointly established by SK Telecom and the Seoul National University Hospital (SNUH), but is about to be stranded due to opposition from the medical sector. The company is currently providing Health On, a tailored healthcare service making use of smartphones and activity trackers, along with the hospital finder of Patient Guide and the tablet PC-based Bedside Station service for inpatients. These smart hospital solutions are not directly related to medical care, but have encountered the medical privatization issue. The labor union of SNUH has recently defined Health Connect as a for-profit subsidiary of a medical corporation, which is prohibited by the current law, and started a strike on July 21 claiming that SK Telecom stop the business in which patients' personal information could be gathered without consent.

KT, on its part, set up HOOH Healthcare with Severance Hospital, and has prepared hospital information systems, IT-based healthcare services, hospital management assistance, and medical informatization projects. However, the progress has been slow from the get go.

Samsung Electronics mounted a heartbeat sensor on the

The lobby and entrance to Yonsei University Medical Center, also known as Severance Hospital.



Galaxy S5, but released the phone in March with the function deactivated due to regulations surrounding electronic medical devices. Then, the Korea Food & Drug Administration revised its notice to categorize it as a heartbeat sensor for exercise and leisure purposes, so the handset can legally provide the function.

Google and Apple, in the meantime, are poised to dominate the global healthcare market with their Google Fit and Health Kit platforms, while Korean companies are mired in regulations and social backlash. These services collect a wide range of body state information such as blood pressure and heart rate.

The Korean government is failing to mediate the conflict, though. The Ministry of Health and Welfare is planning to revise the enforcement regulations of the Medical Care Act to allow medical corporations to establish for-profit subsidiaries and expand the scope of medical business by attracting foreign patients. However, the opposition parties, medical and healthcare organizations, and civic groups are strongly opposed to the revision to lower the possibility of implementation. The first pilot project for remote healthcare, which was planned to be started in June, is going nowhere due to the controversy surrounding medical privatization, too. ✖

Hanjin Group

# LA Times to Introduce Behind-the-scenes Stories of Wilshire Grand Hotel Project

The Los Angeles Times, a major U.S. publication, has revealed the behind-the-scenes stories of the Wilshire Grand Hotel renovation project of the Hanjin Group. This huge project will entirely change the skyline of LA.

The Hanjin Group bid more than US\$1 billion for this large project of The Wilshire Grand Hotel renovation, and plans to build a landmark in the heart of LA's financial district. The building will have a total of 73 stories divided into a hotel in the upper floors and offices in the lower floors, and is expected to be open by 2017.

The Los Angeles Times explained how the Wilshire Grand

Hotel renovation project, which will recreate the skyline of L.A., has been started, how far the project has gone, and what it means in great detail through an article published on August 10.

According to the article, Cho Yang-ho, chairman of the Hanjin Group, met Chris Martin, chairman of AC Martin, through Max NiKias, the incumbent president of the University of Southern California (USC). Since then, Chairman Cho has shared mutual interests with Chairman Chris Martin and established a good relationship.


At that time, Chairman Cho Yang-ho confessed his difficulties to Chairman Chris Martin, saying, "Everyone has been trying to persuade me not to invest in the Wilshire Grand Hotel. Even though I invested over US\$40 million in order to change the Wilshire Grand Hotel into a four star hotel, it feels like I have four one star hotels instead."

AC Martin then introduced six scenarios, and Chairman Cho Yang-ho welcomed them, saying, "These are exactly what I wanted all along." Chairman Cho Yang-ho especially thought that the new development of the Wilshire Grand Hotel symbolizes devotion to the city of L.A., and that it is perfect timing to get started in the middle of an economic recession. Chairman Cho Yang-ho decided to proceed with the project.

However, the initial plan to build two different buildings, a 45 story hotel and a 65 story office complex, faced difficulties due to the decreased demand for offices following the economic recession. Accordingly, Cho Hyun-ah, vice president of Korean Airlines, proposed to combine the two buildings and downsize the office space in order to maintain essential value and professionalism as a hotel management company.

Chairman Cho Yang-ho immediately accepted this suggestion. Then AC Martin finally revealed hotel designs, which entailed 73 stories, 900 hotel rooms, and 400,000 ft2 office spaces in April 2012, according to the Los Angeles Times.

Hanjin Group expects to create 11,000 jobs and US\$80 million in tax effects during the construction period, and additional 1,700 jobs as well as US\$16 billion in annual tax effects to LA after completion of the project. This will greatly help to revive the local economy.

Appreciating all these influences and answering back to the Hanjin Group, the city of L.A. decided to exempt the Wilshire Grand Hotel of the Transient Occupancy Tax (TOT), which is 14 percent of total room charges, for 25 years after the completion of the work. So, US\$54 to US\$79 billion in taxes will be waived. 







## The Second Lotte World

# Creating More than 7,500 Construction Jobs on Average per Day

Every morning from six to seven at Jamsil Station, around Exits number one and two, one can see a very long line of 7,500 people going to work every day. The line forms at the intersection of Jamsil station of line number two of the Seoul Subway. The long line snakes out of the station and heads to the construction site of the second Lotte World, where the 123 story Lotte World Tower is being built.

The aggregate daily wages paid to the 7,500 workers associated with the construction site are over 900 million won, or US\$880,749. If this is converted to annual wages, more than 300 billion won (US\$294 million) is paid to employees per year. Especially considering the characteristics of the construction site, the job creation effects are even greater, as people from various age segments including the twenties and sixties are employed there. The scope of work is comprehensive, from simple jobs including cleaning and transportation, to professional areas such as design, mechanic work, and tower crane operation, which means many different types of jobs are created.

### Serious Added Economic Value

Effects on economic inducement are also very huge. Lotte Corporation estimates the effects on production inducement and economic value added by Lotte World Tower and Lotte World Mall at about 7 trillion won (US\$6.85 billion), based on the construction coefficient in the 2008 inter-industry relations table of the Bank of Korea.

Furthermore, huge effects on economic inducement, including 4 million jobs per year during the construction period and 20,000 constant employees in distribution, tourism, food and accommodations, entertainment and leisure, and office work after completion, are expected.

Compared to the fact that Incheon and Cheonan created 67,336 and 10,835 jobs, respectively, the job creation size of Lotte World Tower and Lotte World Mall is almost equivalent to a small or medium-sized city. In other words, a huge vertical city is being created right now.

### 300 Billion Won of Tourism Revenues Expected

The construction site of the second Lotte World is the biggest in Korea, with a total investment of 3.5 trillion won (US\$3.43 billion). The site consists of the 123 story and 555 m Lotte World Tower, which is to become the highest building in Korea, the Avenuel building for luxury goods, a shopping mall building, and an entrance building where a Lotte Cinema theater, Lotte Mart, and Lotte Hi Mart will be placed.

According to Lotte Corporation, a high floating population

is expected when Lotte World Mall and Lotte World Tower are completed in order by 2016, together with the existing Lotte Department Store, Lotte World Hotel, and Lotte World Adventure.


The local commercial area in Songpa-gu such as Food Street in nearby Bangi-dong and Café Street around Seokchon Lake are also very excited about the construction. Mr. Shin, who is running a restaurant at Bangimatgol expressed expectations, "I expect many jobs to be created due to the increase of the floating population. Even now, a lot of employees working at the construction site are coming. When many shopping malls are located after the completion of construction, the floating population shall increase even more."

The City of Seoul designated Lotte World Adventure and the Seokchon Lake area as "Jamsil Special Tourist Zone" in March 2012 in order to attract Chinese and Japanese tourists. Jamsil Special Tourist Zone Vitalization Association formed by Songpa-gu Office, the Merchants Committee, and companies are promoting various plans to coexist with Lotte World Tower and Lotte World Mall.

A Lotte employee said, "More than 300 billion won [US\$293 million] of revenues on tourism are expected through attracting foreign over 1.5 million tourists annually upon the completion of the second Lotte World."

The second Lotte World proudly presents at a gigantic scale, with the footprint of 87,183m<sup>2</sup> and gross area of 807,613m<sup>2</sup>. The gross area of Lotte World Tower only reaches 328,350.74m<sup>2</sup>.

The second Lotte World is 555m tall, and includes the 123 story Lotte World Tower, the Avenuel building which is to be the biggest luxury goods department store, the shopping mall building and the entrance building in which various shopping and cultural facilities are to be located.

Everything except the Lotte World Tower skyscraper is almost complete. Because of the big difference in building heights, partial usage is temporarily allowed in most complexes in order of completion. The Building Act entails partial temporary usage, and there are many examples of partial temporary usage inside and outside of Korea, including Taipei 101 in Taiwan, SIFC in Yeouido, and Trump Tower in Chicago. 



## Multi-level Shady

# Amway Korea Flaunts Regulations, Receives Slap on the Wrist

Amway Korea (CEO Park Sae-joon), the largest multi-level marketing company, received correctional orders from the Fair Trade Commission (FTC) for flaunting the regulations set for multi-level marketing companies. However, the FTC has also been criticized for handing out a too-light punishment.

## Unilateral Arrogance

According to the FTC on July 29, Amway forced its salespersons who resell Amway products to not sell products cheaper than a stated purchase price. If any salesperson violated this order, they were temporarily disqualified from conducting any sales activities. Disqualified salespersons are not eligible for support allowances, usually paid depending on each person's sales performance and that of their subordinate salespersons. Disqualified salespersons can no longer recruit subordinates, either.

This is a clear violation of the Monopoly Regulation and Fair Trade Act (Section 21). Amway salespersons are not employees of the multi-level marketing company, but are considered to be independent retail distributors. Accordingly, salespersons can legally dispose of products they buy from the company via any method, including price discounts. This possibly helps consumers buy daily necessities at lower prices.

The FTC gave Amway corrective orders to stop the price fixing activities and delete the relevant clause from their sales guidelines. The FTC said, "Amway deprived consumers of the opportunity to purchase products at low prices by controlling the sales price."

## Allowances Less than Top 10 Average

The incomes of Amway salespersons are already quite low. According to an investigation by the FTC, the average annual income of salespersons in the top ten multi-level sales companies in Korea is only 1.08 million won, or US\$1,045.

But salespeople in Amway, the number one sales company in the industry, received on average only 770,000 won (US\$745) per year, less than the average of the other top ten companies. Furthermore, the top 1 percent of Amway sales employees earned 56 million won (US\$54,150) per year each on average, whereas the other 99 percent earned only 470,000 won (US\$455) yearly.

A source in the industry said, "Due to the limit of the pyramidal multi-level sales method, income differences between top sellers and non-top sellers are inevitable. Top sellers take the majority of all allowances."



The incomes of Amway salespersons are already quite low compared to the average of top 10 multi-level sales companies.

Amway also got penalized for enlisting 103 teachers and public officials in its ranks. According to the relevant laws, national, local, and educational officials cannot join multi-level sales organizations, since they could force civil petitioners or parents to buy products using their social status.

## Slap on the Wrist


Despite its actions, blame is falling on the FTC now. There is controversy over the measures taken against Amway.

Based on its web site, Amway officially started to control sales prices from September 2008. They were only caught in October 2012, even though the FTC investigates multi-level marketing companies every year. It took another two years for the FTC to impose corrective orders. The commission commented on this by saying, "It took quite long for us to impose corrective orders. We have limited human resources, and internal policies and procedures to conduct complete investigations every year."

The punishment for Amway is also considered to be just a slap on the wrist. Other than the FTC's command to delete the relevant clause, there were no additional punitive measures, even fines. Regardless, the FTC said, "This case will ring an alarm for other companies."

## Most MLM Heads from FTC

On the contrary, nine out of eleven CEOs of Mutual Aid Cooperative and Consumer (Mac & Co), to which Amway has belonged since 2002, and its sister organization MLM Union, are from the FTC. The current CEO of Mac & Co is a former high-level executive of the FTC.

The fact that heads of multi-level marketing companies, which the FTC needs to closely control and supervise, are former FTC executives shows that the FTC is not fulfilling its responsibility to take care of and protect sales employees and consumers. Furthermore, this could lead to the collapse of multi-level sales industry regulation. 



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## Bio Industry Expo Osong Korea 2014

# Growing to Become One of World's Three Major Biovalleys



Lee Cha-young, Secretary General  
of the organizing Committee of Bio  
Industry Expo Osong Korea 2014

**B**io Industry Expo Osong Korea 2014 will be held at Osong Biovalley (near Osong KTX station) from September 26 to October 12 with the theme of “The Secret of Life, Beautiful Future.”

Chungcheongbuk-do has established a foundation to nourish the biotechnology industry by successfully hosting “Osong Industry Expo

Osong Korea,” the first comprehensive international biotechnology expo, since 2002. Osong, Chungcheongbuk-do has become the center of the biotechnology industry in Korea since it has been designated as the first specialized complex for the biotechnology, hygiene, and medical industries in Korea in 1997. Since then, a life science complex was formed in 2008, an advanced and integrated medical complex was brought in August 2009, and six national health organizations, including the Korea Health Industry Development Institute, moved there in December 2010.

In total, 165 biotechnology and information technology companies as well as life science research organizations moved into Ochang Scientific Industrial Complex, which was completed in 2002. An additional 60 biotechnology companies moved into Osong Biovalley, which was completed in 2008. Osong, Chungcheongbuk-do aims to become an international biomedical hub by forming the Second Osong Biovalley (3.29 million m<sup>2</sup>), creating Chungbuk Free Economic Zone early, upgrading to advanced and integrated medical complexes, and expanding infrastructure.

The biotechnology industry inside and outside of Korea was US\$900 billion in 2009, but is expected to grow over 50 percent to US\$1.4 trillion in 2014. In Korea, the market size of the biotech industry tripled in the last six years, from 2005 (2.62 trillion won, US\$2.56 billion) to 2010 (6.15 trillion won, US\$6.01 billion). The government is intensively nourishing the biotechnology industry by selecting it as a growth driver for future, and Osong is becoming the essential stronghold for the national biotech industry.

Lee Cha-young, secretary general of the organizing committee of the Bio Industry Expo Osong Korea 2014, said, “Since the international bio exposition first started in Chungbuk, Korea, in 2002, the biotechnology industry in Korea showed rapid growth for ten years. Thanks to this, Osong has a vision to become a center of the national biotechnology industry and ultimately one of the world’s three major biovalleys

soon. I believe that 2014 is the best time to prepare the growth driver of Chungbuk through nourishing the biotech industry.” The foundations for Osong to predominate the biotechnology industry in the mega-regional economy will soon be put into place. First, a Free Economic Zone was designated around Osong in 2013. Then, then Cheongwon and Cheongju were unified into one city in 2014. Next year, a junction station of KTX Honam will be opened, and then in 2016 the Second Osong Biovalley will be completed.



## Exceeding the Target of Corporate Invitations

Bio Industry Expo Osong Korea 2014 aimed to invite 233 companies for booth participation including 60 foreign companies and 700 buyers (300 foreign buyers). However, the Organizing Committee announced that 346 companies applied for booth participation by August 20. 71 Korean companies were eliminated by the selection council. Even without these companies, the number of domestic and overseas participants exceeded the original target of 223 by 23.3 percent, or 52 companies.

In Korea, 140 big and small enterprises, including LG Life Sciences, Meta Biomed, Medytox, Biotextech, Optipharm Solutions, Cospharm Bio, Pion-ch, and Aribio, applied to participate. Merck of the U.S., a global pharmaceutical company; Siemens of Germany; SinoPharm, number one sales in China; and ShanghaiParma, the biggest medical device company in Shanghai; applied as well.

By type of company, 84 cosmetics related companies registered. Twenty-four devices and materials companies, 17 medical and pharmaceutical companies, 17 food companies, 15 process machinery companies, seven research and inspection service companies, six beauty devices companies, and four beauty companies followed.

On the other hand, the Organizing Committee is trying its best to invite 700,000 visitors, including 665,000 from Korea and 35,000 from overseas, to Bio Industry Expo Osong Korea 2014.

## Major Exhibition Programs

There are various attractions for both adults and children at the exhibition booths of this expo. A bio future hall, a theme exhibition hall, will present an understanding of the biotech



industry, progress trends and performances, and visions and outlook.

Major and issued products of the domestic and overseas biotech industry, a genome play in which genomes of humans and various animals and plants will be analyzed, the first cloned dog, Snuppy, and another symbol of this biotech expo, “Donggyeong,” will be introduced here.

The bio health experience hall will provide information on the healthy life that the biotech industry, targeting middle-aged people, can bring. Various experiences such as the diagnosis of a “Sasang constitution” and mobile health care will be available. Futuristic treatment technologies including health information related to cause of death, gene therapy, customized cancer therapy, and biochip diagnosis will be introduced. Also, massages and total sensory health experiences will be introduced to heal the body and mind.

At the beauty experience hall, future K-beauty experiences including biotech and convergence cosmetics will be available. Starting with a hologram image concert by the K-pop group “Sistar,” K-beauty as a part of Hallyu will be introduced. In addition, various beauty secrets such as the makeup secrets of Hallyu celebrities will be available to experience.

In the customized skin solution section, skin diagnosis and consulting based on new devices will be available, and customized cosmetics according to the diagnosis results will be provided. Moreover, beauty experiences using beauty applicators integrated with electronic devices, edible cosmetics that enhance beauty through being ingested, and wearable cosmetics that improve skin elasticity and textures and reduces body fat when worn will be exhibited.

The education experience hall, primarily targeting students, will deliver basic knowledge of life sciences and introduce experience programs related to school curriculum. Students can check cells and DNA through hologram images, and create their own mini-holograms. Various biology experiments that are not available in school, including genetically modified


and multicolored fluorescent zebra fish, DNA extraction, and the observation of bacteriophagy are available, together with 3D scanning and printing experiences. Future promising jobs in the biotechnology industry will also be introduced through fingerprint checks.

## Supporting Biotech Companies to Expand Overseas

There will also be events to help participating companies to expand overseas and increase sales. The Organizing Committee, in cooperation with KOTRA, will trade consulting sessions with foreign buyers such as Novartis, Pfizer, Amgen, and Johnson & Johnson twice on September 26 and 30.

The Division of International Trade and the Biotechnology industry of Chungcheongbuk-do also plans to export consulting meetings six times by inviting 200 foreign buyers. Chungbuk plans to provide partnership opportunities, including joint investment, with small and medium-sized companies in Korea, by inviting three of the major global pharmaceutical companies.

Lee Cha-young, secretary general of the Organizing Committee, said, “We will make sure that actual business opportunities are created during this expo with the participation of major bio companies and buyers worldwide. This expo will be a great change to upgrade the biotechnology industry of Chungbuk as well as Korea to the next level.”

He added, “Chungbuk will be able to have global competitiveness to become a center of the biotech industry in Korea and the world through the successful hosting of the international bio event held for the first time in the last 12 years. We encourage everyone including civilians and corporate professionals to participate so that Osong, Chungbuk becomes the heart of the biotechnology industry and compete with advanced biotech countries worldwide through Bio Industry Expo Osong Korea 2014.” 





## K Shop


# Evolution of Retail to Mobile Happening at K Shop



Korea's major shop exhibition, K Shop, will be held at KINTEX for three days from Sept. 25 to 27. This 6,500 m<sup>2</sup> exhibition is ready to contain 20,000 visitors, including 3,000 buyers. Domestic-based companies like IBM, Samsung, LG CNS, SK Telecom, and NICE will attend, and foreign companies like Easyblox, a famous Belgium shop display/design company, will also attend.

Many representatives of companies and decision makers are expected to come to this large-scale retail shop decorating event. Visual merchandizers, shop display and decoration experts, fragrance-marketing companies, i-retailers using e-commerce and the Internet as the venue for sales, pop-up store companies, shop owners interested in omni-channel shop marketing, and expo and showroom builders and designers will display their products. EASYBLOX is exhibiting its products to seek Korean suppliers and partners for business through K Shop.

As smartphones quickly took the place of the major purchasing channels, K Shop will specially concentrate on mobile retailers and solutions this year. State-of-the-art location-based technology called beacon, an upgrade of GPS, will be displayed all around the exhibition center to demonstrate its functions to both visitors and buyers.

For the entire show period, there will be a K Shop conference comprised of about 30 sessions. Conference rooms are built into the expo zone for convenience. There will also be an expo zone to promote retail companies' expo marketing solutions. K Hospital will also be held in the next hall, so that visitors can see both events on the same day. K Hospital is being held to promote Korea's leading hospitals, hospital interiors, and medical tourism. 

## K SHOP 2014

### Overview of K Shop 2014

Title	K Shop 2014
Date	Sept. 25(Thu) - 27(Sat), 2014
Venue	KINTEX
Exhibitors	Visual merchandizers, shop display and decoration experts, fragrance marketing companies, i-retailers, i-retail and mobile retailers and solution providers, pop-up store companies, shop owners interested in omni-channel shop marketing, expo and showroom builders and designers
Program	Exhibition / Conference / Expo Zone / Deluxe & Boutique Hotels Association
Organizer	KINTEX, e-Sang Networks
Website	<a href="http://www.kshopfair.com">www.kshopfair.com</a>
Phone	031-810-8073



NURE 2014

# Chance for New Leap in Nuclear, Radiation Industries



The World Nuclear and Radiation Expo (NURE) 2014 takes place from Sept. 17 to 19 at the COEX Convention Center in Seoul.

Despite the increasing concerns over the safety of nuclear power in the wake of the Fukushima disaster, more and more countries around the world are resorting to it to deal with a lack of energy sources. In step with the trend, the annual expo is to raise the public awareness of the nuclear power industry, have talks over the latest technology, and promote Korea's advanced nuclear and radiation industries.

Last year, a total of 80 organizations from nine countries participated in the event for 288 business meetings and a combined contract amount of US\$15 million. This year, the expo will be held under the theme of "New Leap, Sure Energy." State-of-the-art technologies will be introduced and market-related information shared so that industries can solidify their position as future growth drivers. Also scheduled are international conferences for the discussion of used nuclear fuel processing and nuclear power plant decommissioning.


The NURE Organizing Committee is suggesting a new paradigm for the sectors in order to help boost market size and help companies in the field find new business models and opportunities. More than 30 organizations and corporations are participating in the committee headed by Korea Hydro & Nuclear Power President Cho Seok, including the Ministry of Science, ICT & Future Planning, Ministry of Trade, Industry & Energy, Korea Atomic Energy Research Institute, Korea Institute of Energy Technology Evaluation and Planning, and Doosan Heavy Industries.

"The purpose of this year's expo is to dispel the worries of the public over the nuclear industry and regain the people's

trust," said the chairman of the committee, adding, "In this vein, various programs are prepared to publicize the government's nuclear industry policy and the advanced technologies of the industry participants."

The international expo, celebrating its fourth anniversary this year, has invited a lot of main export destinations for policy and knowledge sharing, and set the groundwork for Korean nuclear companies' overseas business. In addition, it has been a venue for discussing future policy directions and a wide variety of issues as to applied radiation technology for consensus building. "We have held yearly public events for nuclear safety education so that citizens can change their awareness of the industries," the chairman mentioned, "Our efforts for the goal will continue down the road."

Participants in the conferences are going to mull over the future of the industries by means of technological convergence and the promotion of high value added technologies. They will also check on the current status of used nuclear fuel processing so the nuclear power industry can achieve sustainable growth over time.

At the same time, the organizing committee is planning to set up exhibition zones such as the Joint Pavilion of Korea Hydro & Nuclear Power partner firms, R&D Zone, Applied Radiology Hall, and Special Pavilion for Foreign Corporations. These will provide an opportunity for browsing the entire industry at a glance. The auxiliary events include hands-on programs for experiencing radiation emergency medical care, the Pandora's Promise documentary, and lectures on a better understanding of radiation. 

## Hallyu Splash

# Economic Effects of Korean Wave Underwhelming for Past 15 Years



The introduction seen 'round the world' - the beginning of Psy's Gangnam Style music video

As Psy's song "Gangnam Style" (2012) and the drama "My Love from the Stars" (2013) have gained huge popularity, Hallyu, or the Korean Wave, seems to have entered a golden age. Central government departments and local governments are spending a lot of money on the Hallyu business. However, the practical effectiveness and economic influence of Hallyu must be accurately examined, instead of being blindly overwhelmed by a "Hallyu Drive" based on the culturally-strong nation theory.

Since 2012, the Korean government has declared the "3.0 Hallyu Generation" and promoted "K-Culture" projects to expand Hallyu culture previously led by dramas (1.0 generation) and pop music (2.0 generation). Last year, the government budget related to Hallyu increased by 27.3 percent, equivalent to 70.4 billion won (US\$68.7 million), making the total budget 327.9 billion won (US\$319.9 million) in 40 business areas. Both in the private and public sectors, numerous associations and organizations, including two Hallyu graduate schools, have been opened. Hallyu now includes not only mass culture but also arts, fashion, traditional culture, and sports. Various kinds of forums, expositions, culture centers, and schools for infrastructure, concert towns, and Hallyu tourist complexes are mushrooming.

Since the Hyundai Research Institute assessed the economic effects of Hallyu Star Bae Yong-joon at 3 trillion won (US\$2.9 billion) in 2004, the economic ripple effects of Hallyu have been standing out even more. The theory goes that an improved national image thanks to Hallyu leads to increasing exports, and

therefore leads to the growth of the manufacturing industry.

When exports of cultural products increase by 1 percent, exports of all consumer goods increase by 0.03 percent (export elasticity). Based on this, it has been concluded that the economic effects of Hallyu-related businesses, including production, added value, and employment, reach 5 trillion won (US\$4.87 billion) per year.

Then, did exports of Hallyu-related products actually grow? Five product groups have been classified as Hallyu products by the Korea Customs Service: culture, living, food, clothing and accessories, home appliances, and computers. However, the exports of these product groups have either declined or remained the same for the past 15 years of the Hallyu golden age.

The export portion of Hallyu consumer goods was 22.8 percent in 1998 and 25.2 percent in 2001, the beginning of Hallyu. This drastically dropped to 11.7 percent in 2007, and to 12.5 percent last year, staying near the lower 10 percent region of the chart for the past seven years. In terms of amount, exports of Hallyu products only increased to US\$11.03 billion in 2013 from US\$8.34 billion in 1998. During the same period, the growth rate of Hallyu products was 2.0 percent, while all consumer goods grew by 6.1 percent. Especially with clothing and accessories, which are known to be mostly influenced by Hallyu, the export portion in five Hallyu product groups declined to 26.5 percent in 2005 and 18.8 percent in 2012, from 56.8 percent in 1998. Cultural products directly affected by Hallyu were only 4.4 percent in 2012. <sup>8K</sup>



## Korean Hospitals Come Home

# Korean Medical Institutions' Efforts for Overseas Expansion Not Paying Off



The front view of Seoul National University Hospital.


Korean hospitals have rushed into Asian and Middle Eastern countries since around 2000, when the popularity of Korean pop culture began to soar in these regions. However, an increasing number of them are returning to Korea, after experiencing bitter failure from around 2010.

The Korean Wave (Hallyu) phenomenon started to spread to not only Asia but also Europe and North America in the late 1990s, and various industries became confident of successful overseas business. The medical community was no exception, either. Many experts thought that Korea's advanced medical technology and services would appeal to Southeast Asian nations with less-developed medical sectors, and in North America where medical costs are very high. The positive image of Korea created by movies and pop singers was expected to be a boon to localization in Southeast Asia, China, and the like, and cosmetic surgery demand would rise among Asian women thanks to the popularity of Korean TV dramas.

According to the Ministry of Health & Welfare and the Korea Health Industry Development Institute, more than half of large general hospitals surveyed last year said they were willing to participate in the government's policy for overseas medical practices. In addition, 80 percent of general hospitals, medical institutions, and clinics actually joined its overseas expansion

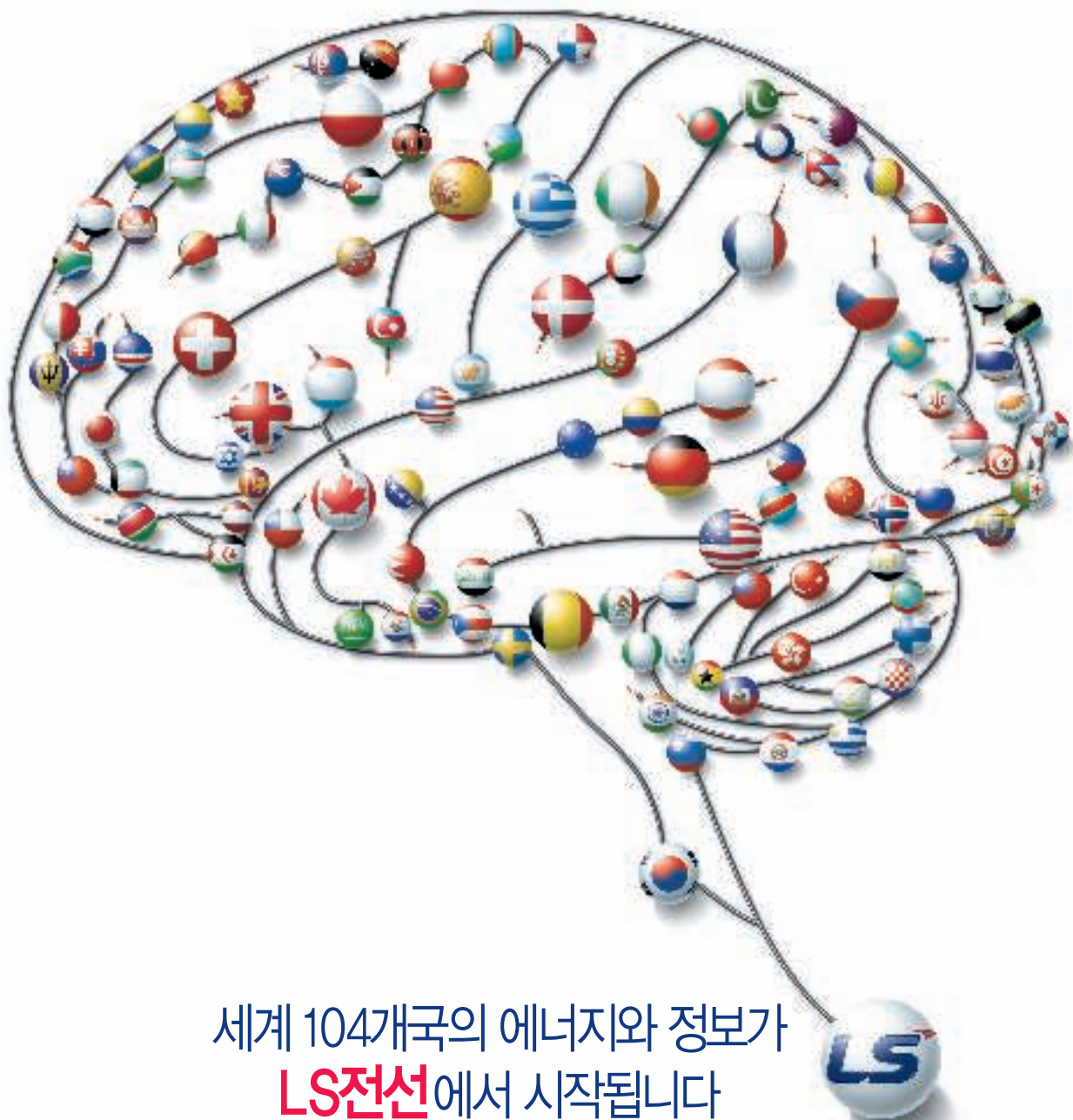
programs, and 60 percent of them were preparing or planning to do so with detailed roadmaps.

As of the end of last year, 111 medical institutions were in business in 19 countries. That was 20 more institutions and three more countries than a year earlier. The destinations included not just China and the United States but also the Philippines, Thailand, Malaysia, Hong Kong, Saudi Arabia, and the United Arab Emirates. The segments of the services were diversified as well, from cosmetic surgery and dermatology to medical checkups and comprehensive diagnoses. Most of the institutions entered such countries in partnership with local companies and major hospitals, because this is advantageous in terms of business permits and licensing, medical insurance applications, and adaptation to local culture.

Still, not a few institutions have had difficulties in the early stage due to the lack of understanding of the local law and market conditions and failed selection of locations. For instance, Seoul National University Hospital set up an office in the United States and opened a diagnosis center staffed with workers dispatched from Korea, but failed to attract a sizeable number of patients. The hospital recently determined that this has been owing to poor marketing, and decided to hold hands with a local assistant for a marketing strategy overhaul. 







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